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Politics this week

Feb 26th 2004
From The Economist print edition

Prime minister dismissed

AP

Russia's president, Vladimir Putin, dismissed his prime minister, Mikhail Kasyanov, along with his entire government. The sackings came only 19 days ahead of a presidential election that Mr Putin is expected to win by a landslide. Mr Kasyanov's replacement, Viktor Khristenko, may only be temporary; businessmen remain anxious because Mr Kasyanov was widely seen as their chief ally inside the Kremlin.

See article: Vlad the unpredictable

On an official visit to Ankara, the German chancellor, Gerhard Schröder, offered strong encouragement to **Turkey's** hopes of opening negotiations to join the European Union. Only a week previously, Angela Merkel, leader of the opposition Christian Democrats, had sought to deter Turkey from full EU membership.

The British government dropped charges against an employee who leaked an American request for Britain to bug **UN** diplomats during the period preceding the invasion of Iraq. Later Clare Short, a former cabinet minister, claimed that British spies had bugged Kofi Annan, the UN secretary-general, in the run up to the war.

See article: Security services bugging activities

Boris Trajkovski, **Macedonia's** president, and several of his staff were killed after their plane crashed into a mountain in southern Bosnia.

The prosecution wound up its case against **Slobodan Milosevic** at the Yugoslav war-crimes tribunal in The Hague. But the British judge, Richard May, announced his resignation from the tribunal on grounds of ill health.

See article: A progress report on the Milosevic trial

State of the union

George Bush endorsed a proposed constitutional amendment banning **same-sex marriage** and defining the institution as a union between a man and a woman. Meanwhile, California's governor, Arnold Schwarzenegger, sought a state Supreme Court ruling on the issue, arguing that San Francisco was continuing to disregard state law by conducting gay marriages.

See article: The case for gay marriage

Ralph Nader, the Green Party's presidential candidate in 2000 and the man blamed for splitting the Democratic vote in key states, said he would run this year as an independent. In the Democratic primaries, John Kerry won three more states—Hawaii, Idaho and Utah—to bring his delegate total to around a third of the 2,162 needed to win the nomination.

See article: Ralph Nader's bid

The Pentagon laid the first charges against detainees at **Guantánamo Bay**. Two alleged bodyguards of

Osama bin Laden will face a military tribunal accused of terrorism and war crimes.

See article: Charged at last

Elected unopposed

After an election in which the most secular and reform-minded candidates were barred from standing, religious conservatives easily regained control of **Iran's** parliament. Meanwhile, the International Atomic Energy Agency said that Iran was still failing to disclose parts of its nuclear programme, although it had agreed to reveal all.

See article: Iran's general election

Libya's thaw with the United States and Britain turned into a cold snap when its prime minister, Shukri Ghanem, denied Libya's guilt in the Lockerbie airliner bombing of 1988. After Libyan diplomats played down the apparent gaffe, it looked as if it might delay but not stop Libya's emergence from isolation.

The United Nations reported that the American plan for a transitional assembly in **Iraq** chosen by caucuses would not work, but also that a free and fair general election in Iraq could not be organised until eight months after a legal and institutional framework had been agreed on.

See article: The next plan for Iraq

An earthquake in northern **Morocco** killed at least 565 people and left 20,000 without homes.

AFP

See article: An earthquake in Morocco

A cultish rebel group, the Lord's Resistance Army, killed at least 80 unarmed civilians in northern **Uganda**. During a subsequent protest march, at least four people were lynched and one shot as the army dispersed rioters.

See article: Carnage in Uganda

A few weeks after the president of Nigeria lamented the lack of coverage of his country in *The Economist*, his government **deported our correspondent** in Nigeria, Silvia Sansoni.

See article: Nigeria deports our correspondent

Rebels roll on

In **Haiti**, armed rebels seized the second city, Cap-Haïtien, sealing their grip on the north of the country. President Jean-Bertrand Aristide agreed to an American proposal that he should share power with the opposition—who rejected it. George Bush sent 50 marines to protect the American embassy but said that a peacekeeping force could only follow a political settlement.

See article: Haiti's spreading rebellion

In **Venezuela**, the opposition denounced a decision by the electoral authority which seemed likely to annul on a technicality many of the 3.4m signatures gathered last year calling for a recall referendum on Hugo Chávez, the populist president.

See article: Venezuela's president frustrates the petitioners

Argentina's president, Néstor Kirchner, quashed rumours that his government was preparing to sweeten its offer to holders of its defaulted debt by honouring past-due interest. Mr Kirchner faces pressure from the IMF and G7 rich countries to reach a deal with its creditors.

Nuclear stand-off

Six-party talks over **North Korea's** nuclear programme began in Beijing. North Korea wants aid and security guarantees before freezing its programme. It also denies American claims that it has a secret uranium-enrichment programme.

China's Academy of Social Sciences reported that in 2002 city dwellers earned three times more than people in the countryside. The report said the real inequality was even starker.

The All-Party Hurriyat Conference, a moderate Kashmiri group, threatened to pull out of talks with **India**. The separatists, who held a ground-breaking meeting with the Indian deputy prime minister last month, accuse Indian troops of human-rights violations in the disputed territory.

In **Sri Lanka**, a series of violent incidents marred the closing day for the registration of candidates for the parliamentary election scheduled for April 2nd. The election was called following the dissolution of parliament by President Chandrika Kumaratunga, who has been locked in a power struggle with Ranil Wickremesinghe, the country's prime minister, for several months.

AFP

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Business this week

Feb 26th 2004
From The Economist print edition

Bubbling under

The quest for a new boss for **Coca-Cola** began after Douglas Daft unexpectedly announced that he would retire at the end of the year. The board said its search would include outside candidates. Steve Heyer, number two at Coke and heir presumptive, will also be on the list.

De Beers was reportedly in secret negotiations to end its exile from America. Executives of the South African diamond cartel have for years risked arrest on entering America because of an antitrust case filed against the firm for allegedly manipulating industrial-diamond prices. De Beers may hope to negotiate a fine in order to sell its wares directly in America.

See article: Polishing the image of De Beers

The American army delivered a blow to Boeing and United Technologies with the cancellation of the **Comanche** stealth helicopter after spending around $8 billion on the scheme. Another $30 billion was earmarked for a weapon designed for the cold war but now deemed unsuitable for the war on terror.

America and the EU reached agreement on **Galileo**, Europe's rival to America's existing satellite-navigation system, Global Positioning System. America had opposed Galileo, claiming that its signal would interfere with GPS's; some Europeans suggested that America feared losing its competitive advantage.

Japanese antitrust authorities raided the Tokyo offices of **Microsoft**, seeking evidence that the software giant had set unfair conditions when licensing its Windows operating system to Japanese computer-makers. Microsoft denied any wrongdoing.

Securities market

Denmark's **Group 4 Falck** agreed to lock together with Britain's **Securicor** in a £650m ($1.2 billion) takeover. The combined Anglo-Danish security firm will then endeavour to take on the world leader, Sweden's Securitas.

Parmalat put its American dairy units into Chapter 11 bankruptcy protection. The move is designed to protect the value of the firms while the scandal-hit Italian firm finds a buyer for them.

Wanadoo what's right

France Telecom bid some *euro*3.9 billion ($4.9 billion) in cash and shares for the 29.4% of Wanadoo it does not own. Acquiring the country's leading internet-service provider outright will allow the state-controlled telecom's company to offer broadband services more competitively.

Members of the Rigas family went on trial for hiding debt and looting from the company they founded, **Adelphia Communications**. It subsequently foundered. Meanwhile, the cable-television company said it had gathered $8.8 billion in financing as part of a plan to emerge from bankruptcy that it submitted to court.

Bigger pharma

Two big Japanese drug companies, **Yamanouchi** and **Fujisawa**, agreed to merge in a deal worth ¥840 billion ($7.7 billion) to create the country's second-biggest drug maker (and one of the world's top 20). The pair hope the deal will help eventually to make them a global force.

Aventis went tocourt in its attempt to thwart a takeover by a rival French drug firm, **Sanofi-Synthélabo**. Aventis, spurned a *euro*47 billion ($59 billion) offer and may gain some months to find a "white knight", perhaps Switzerland's Novartis, while contesting the bid on legal grounds.

Bad timing

FleetBoston became the latest bank to face charges in the mutual-fund trading scandal. Two of the American bank's mutual-fund units were charged with civil fraud for "market timing" by Eliot Spitzer, New York's attorney-general, and the Securities and Exchange Commission.

See article: Buttonwood

Citigroup expanded its global reach with the $2.7 billion acquisition of **KorAm**, a South Korean retail bank. The deal is the largest-ever foreign investment in the country.

Standard Chartered, a 10% stakeholder in KorAm and a favourite to buy it, became the subject of takeover speculation. The death of the bank's biggest shareholder, Khoo Teck Puat, prompted suggestions that a potential buyer might acquire his 13% stake as a first move on the bank.

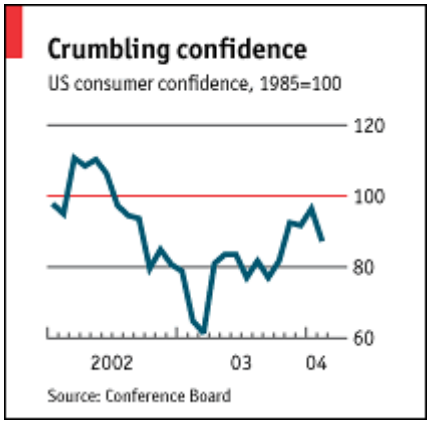
See article: Standard Chartered

Retired hurt?

Alan Greenspan warned against the dangers of America's burgeoning budget deficit. The Fed chairman said that spending on retirement benefits should be curbed to cope with the cost of the retiring baby-boom generation rather than raising taxes, which might harm the economy.

See article: The American economy

America's consumers delivered a downbeat verdict on the prospects for the economy. Consumer confidence slumped in February; pessimism about the lack of new jobs was blamed.



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Equal rights

The case for gay marriage

Feb 26th 2004
From The Economist print edition

It rests on equality, liberty and even society

SO AT last it is official: George Bush is in favour of unequal rights, big-government intrusiveness and federal power rather than devolution to the states. That is the implication of his announcement this week that he will support efforts to pass a constitutional amendment in America banning gay marriage. Some have sought to explain this action away simply as cynical politics, an effort to motivate his core conservative supporters to turn out to vote for him in November or to put his likely "Massachusetts liberal" opponent, John Kerry, in an awkward spot. Yet to call for a constitutional amendment is such a difficult, drastic and draconian move that cynicism is too weak an explanation. No, it must be worse than that: Mr Bush must actually believe in what he is doing.

Mr Bush says that he is acting to protect "the most fundamental institution of civilisation" from what he sees as "activist judges" who in Massachusetts early this month confirmed an earlier ruling that banning gay marriage is contrary to their state constitution. The city of San Francisco, gay capital of America, has been issuing thousands of marriage licences to homosexual couples, in apparent contradiction to state and even federal laws. It can only be a matter of time before this issue arrives at the federal Supreme Court. And those "activist judges", who, by the way, gave Mr Bush his job in 2000, might well take the same view of the federal constitution as their Massachusetts equivalents did of their state code: that the constitution demands equality of treatment. Last June, in *Lawrence v Texas*, they ruled that state anti-sodomy laws violated the constitutional right of adults to choose how to conduct their private lives with regard to sex, saying further that "the Court's obligation is to define the liberty of all, not to mandate its own moral code". That obligation could well lead the justices to uphold the right of gays to marry.

Let them wed

That idea remains shocking to many people. So far, only two countries—Belgium and the Netherlands—have given full legal status to same-sex unions, though Canada has backed the idea in principle and others have conferred almost-equal rights on such partnerships. The sight of homosexual men and women having wedding days just like those enjoyed for thousands of years by heterosexuals is unsettling, just as, for some people, is the sight of them holding hands or kissing. When *The Economist* first argued in favour of legalising gay marriage eight years ago ("Let them wed", January 6th 1996) it shocked many of our readers, though fewer than it would have shocked eight years earlier and more than it will shock today. That is why we argued that such a radical change should not be pushed along precipitously. But nor should it be blocked precipitously.

The case for allowing gays to marry begins with equality, pure and simple. Why should one set of loving, consenting adults be denied a right that other such adults have and which, if exercised, will do no damage to anyone else? Not just because they have always lacked that right in the past, for sure: until the late 1960s, in some American states it was illegal for black adults to marry white ones, but precious few would defend that ban now on grounds that it was "traditional". Another argument is rooted in semantics: marriage is the union of a man and a woman, and so cannot be extended to same-sex couples. They may live together and love one another, but cannot, on this argument, be "married". But that is to dodge the real question—why not?—and to obscure the real nature of marriage, which is a binding commitment, at once legal, social and personal, between two people to take on special

obligations to one another. If homosexuals want to make such marital commitments to one another, and to society, then why should they be prevented from doing so while other adults, equivalent in all other ways, are allowed to do so?

Civil unions are not enough

The reason, according to Mr Bush, is that this would damage an important social institution. Yet the reverse is surely true. Gays want to marry precisely because they see marriage as important: they want the symbolism that marriage brings, the extra sense of obligation and commitment, as well as the social recognition. Allowing gays to marry would, if anything, add to social stability, for it would increase the number of couples that take on real, rather than simply passing, commitments. The weakening of marriage has been heterosexuals' doing, not gays', for it is their infidelity, divorce rates and single-parent families that have wrought social damage.

But marriage is about children, say some: to which the answer is, it often is, but not always, and permitting gay marriage would not alter that. Or it is a religious act, say others: to which the answer is, yes, you may believe that, but if so it is no business of the state to impose a religious choice. Indeed, in America the constitution expressly bans the involvement of the state in religious matters, so it would be especially outrageous if the constitution were now to be used for religious ends.

The importance of marriage for society's general health and stability also explains why the commonly mooted alternative to gay marriage—a so-called civil union—is not enough. Vermont has created this notion, of a legally registered contract between a couple that cannot, however, be called a “marriage”. Some European countries, by legislating for equal legal rights for gay partnerships, have moved in the same direction (Britain is contemplating just such a move, and even the opposition Conservative leader, Michael Howard, says he would support it). Some gays think it would be better to limit their ambitions to that, rather than seeking full social equality, for fear of provoking a backlash—of the sort perhaps epitomised by Mr Bush this week.

Yet that would be both wrong in principle and damaging for society. Marriage, as it is commonly viewed in society, is more than just a legal contract. Moreover, to establish something short of real marriage for some adults would tend to undermine the notion for all. Why shouldn't everyone, in time, downgrade to civil unions? Now that really would threaten a fundamental institution of civilisation.

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Iran

The divine right to a bomb

Feb 26th 2004
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No case for a war. But the world would be safer without a nuclear Iran

AFP

IRAN'S election last week made it possible to see clearly something that had been fogged by ambiguity. It made it clear that the Islamic Republic founded by Ayatollah Khomeini 25 years ago has not evolved as some had hoped into a serious democracy. This is not for want of its people's trying. In a string of elections in recent years, Iranians flocked to vote for those politicians who said they were reformers. But under the constitution bequeathed by Khomeini, the decisions of a mere parliament can be struck down by the "just and pious" clergymen of the Council of Guardians, which is in turn subordinate to the *faqih*, the top cleric and "supreme leader". He and they have crushed the breath out of reform by closing newspapers and striking down progressive laws. The final straw, which made the vote of February 20th a parody of an election, was the council's disqualification of more than 2,000 candidates, including 87 existing members of parliament.

Thumbs on the people, fingers on the button

In a bogus democracy, fewer people bother to vote. So the predictable outcome was the lowest turnout for a parliamentary election since the revolution, and a thumping victory for the religious conservatives. Ayatollah Ali Khamenei, the supreme leader, said that the losers were "the United States, Zionism, and the enemies of the Iranian nation". In truth, the chief losers are Iran's own citizens, whose yearning for personal and political freedom has been thwarted again. But Mr Khamenei is right in at least one respect, which is that the result of the election is depressing not only for Iranians but for the outside world—and, yes, especially America and Israel—as well. For Iran is not just a country whose people look fated to squirm for a good while longer under the thumb of obscurantist clerics who claim a divine right to rule. These clerics also seem to want to put their finger on a nuclear button.

It has to be "seem" because Iran's leaders insist that they do not want nuclear weapons, and never have. That, they say, is why the Islamic Republic—unlike Israel—has signed the Nuclear Non-Proliferation Treaty (NPT). Over the past year, however, they have been caught out time and again failing to give the full account required by the treaty of their nuclear activities (see article). With each new leak, Iran has changed its story. It now admits to having had a secret programme to enrich uranium. Along with Libya and North Korea, it seems to have been one of the main customers of Abdul Qadeer Khan, the disgraced Pakistani who ran a global nuclear-smuggling network. Though it clings amid the confessions to the fable that all of this was for peaceful purposes, few people believe it.

How dangerous would a nuclear Iran be? And what should be done about it? Understandably, the world is in no mood to think about such questions right now. Just to pose them is to invite a sinking feeling of déjà vu. It is, after all, only two years since George Bush put Iran with Iraq and North Korea in his "axis of evil". He still says he will not allow "the world's most dangerous regimes" to threaten America with nuclear weapons. But having invested so much political capital in the invasion of Iraq, Mr Bush no doubt feels his appetite for foreign conflict waning. He will not win re-election in November by making himself look like a serial warmonger.

The many people who were appalled by the Iraqi war may be reassured by Mr Bush's distraction. They should not be. A distracted America may give the clerics the very breathing space they need to build a

nuclear arsenal. Indeed, Iran may have concluded from what happened to Saddam Hussein (and did not happen to North Korea) that the sooner you acquire a bomb the safer you are from the superpower, especially one with armies on two of your borders. Iran's recent agreement to submit to more rigorous inspection by the International Atomic Energy Agency is not inconsistent with its having reached such a conclusion. Under the NPT, Iran is entitled to master the nuclear cycle. It could then give three months' notice to quit the NPT lawfully and build its bomb.

Yet that might not be calamitous. A nuclear Iran is certainly less frightening than a nuclear Saddam would have been. Even under the clerics, Iran is run by a regime with checks and balances, not by one megalomaniac. It no longer tries to export its revolution. It opposed the Taliban in Afghanistan, and has so far done less than it might to undermine America in Afghanistan or Iraq. On the other hand, it calls for eliminating Israel and helps violent organisations like Hamas, Hizbullah and Islamic Jihad to work to that end. The mere prospect of Iran acquiring a bomb has prompted Israel to ponder aloud the case for a pre-emptive strike (though that would depend on knowing exactly where all Iran's nuclear gear was concealed). If Iran got the bomb, sometime enemies such as Egypt and Saudi Arabia might feel compelled to follow suit.

Europe's chance

In short, though a nuclear Iran may not be worth fighting a war to avert, it is a danger worth averting. But how? In October, Britain, France and Germany thought they had talked Iran into coming clean about its secret nuclear activities and “suspending” uranium enrichment. In return, Europe dangles the trade relations Iran's economy sorely needs. If such an approach really did persuade Iran to do without a bomb, the Europeans could boast that they had found a better way than pre-emption to stop proliferation. And this may even be what Iran wants. Just possibly, Iran has decided in the wake of the Iraq war to do its own version of a Libya, by giving up a secret bomb programme but without the shame of admitting, as Muammar Qaddafi did, that it ever existed.

The question is how to be sure. Since October, Iran has spun more tales than Scheherazade to explain away the discovery of bits and pieces of nuclear research it had neglected to mention. This does not inspire confidence. The mullahs' failure to continue along the path of democratic reform is another reason not to give Iran the benefit of the doubt. Having dangled a carrot, the Europeans ought not to hand it over until Iran has delivered its end of the bargain. In the meantime, it does no harm for America to keep hold of a stick.

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Russia

The dismissive Mr Putin

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More evidence of Russia's slide to autocracy

AP

THE president fires the prime minister: it sounds like just another day in the Kremlin. Boris Yeltsin, after all, used to do it all the time. Yet Vladimir Putin's dismissal of Mikhail Kasyanov (and his entire government) this week was far from routine. For one thing, this was the first time he had done it since becoming president in 2000: Mr Kasyanov had served as prime minister for almost four years. More important, the sacking came just 19 days before Russia's presidential election on March 14th. In any normal democracy, it would surely have been more seemly for a candidate to wait until after winning the election before kicking out his prime minister.

Russia is, of course, far from being either normal or democratic. It has long been a certainty that Mr Putin would win re-election by a landslide. Largely because he has presided over a period of relative stability and economic growth, he remains hugely popular with Russian voters, with poll ratings touching 80%. No major opposition politician has chosen to stand against him. And this week, some of those who did stand were talking of pulling out, because the Kremlin's grip on the media and the electoral apparatus has made the campaign absurdly biased. The only conceivable bar to a triumphant victory for Mr Putin has been the constitutional requirement for a 50% turnout. It is hard to imagine that the Kremlin will allow itself to be tripped by that hurdle.

Mr Putin was entirely within his constitutional rights to dismiss the government, even if the timing was surprising. His dissatisfaction with Mr Kasyanov, the last big holdover from the Yeltsin era, had long been rumoured, especially as the prime minister was openly unhappy over the continuing imprisonment of Mikhail Khodorkovsky, Russia's richest “oligarch” and ex-boss of Yukos, the country's biggest oil company. Indeed, the dismissal of Mr Kasyanov largely reflects the outcome of the power struggle inside the Kremlin that has been going on ever since the attack on Yukos began last summer, if not before. His departure marks the triumph, at least for now, of the anti-oligarch, former security-service camp (the so-called *siloviki*) around Mr Putin.

This camp is more interested in the realities of power than in any feeble notions of liberal democracy. Although Mr Putin has often seemed a stickler when it comes to respecting constitutional formalities, he and his advisers have become ever more blatant in their flouting of democracy's true substance. Several elections have been openly fiddled, notably in war-torn Chechnya, where the Russian army continues to disregard any niceties of human rights. Elsewhere, any opposition that has begun to emerge has been swiftly crushed, as the decision to go after Mr Khodorkovsky showed. Most of the media have been brought firmly under state control. The spirit of the electoral laws has been repeatedly broken.

The question is how much further a re-elected Mr Putin may move in the direction of autocracy. For instance, might he, or his now-emboldened henchmen among the *siloviki*, seek to increase the state's influence over business? Or will he concentrate instead on pursuing a much-needed economic and bureaucratic reform agenda? The answers will turn crucially on whom he chooses to take Mr Kasyanov's place. Kremlinologists are already canvassing the various names (see article). If the new prime minister comes from within the *siloviki* camp, Russia after Mr Putin's re-election may become even more Soviet-looking.

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A Caribbean failed state

Why and how to help Haiti

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The case for neighbourly concern, if not nation-building

Reuters

FOR the past three weeks, Haiti has been in the grip of a slowly spreading armed rebellion-cum-coup against the government of Jean-Bertrand Aristide. This has cost at least 60 lives and much damage to property. Once the ragtag rebel army had sealed its control of the north of the country, the fall of the capital, Port-au-Prince, and the ousting of Mr Aristide, seemed inevitable (see article).

The immediate worry is that a bloodbath will ensue, as rival armed gangs settle scores. Beyond the loss of life, these events are troubling for Haitians and for the outside world for other reasons. Mr Aristide, a leftist former priest, once inspired much hope in a country with a long history of misrule. He came to be hated by many of his own people, who complained of corruption, economic stagnation and abuses by his more thuggish supporters. He was accused of rigging a legislative election in 2000; as a result, the opposition boycotted the presidential vote that year.

But Mr Aristide might well have won a free and fair vote. His overthrow should not be cheered. He would become the sixth elected president to be toppled in the Americas since 1999—a worrying trend in a region where democracy is still struggling to consolidate itself.

Bad though Mr Aristide's rule has been, the rebels might well be worse. Haiti's *soi disant* democratic opposition claims, unconvincingly, not to support them. But in any event, power would now seem to lie with the men and boys with guns. Some of their leaders were enforcers for a past military dictatorship. Already, the violence has disrupted food aid; if it worsens, it might trigger an exodus of refugees.

A decade ago, President Bill Clinton sent 20,000 American troops to restore Mr Aristide, who had been ousted by a military dictator shortly after his first electoral victory in 1990. This time, the United States has been reluctant to step in. That is partly because Haiti is a partisan issue there; conservative Republicans would love to see the end of Mr Aristide. Only in the past few days, egged on by France, did American diplomats put much effort into brokering a deal. This would have seen Mr Aristide stay until his term ends in 2006, but in co-government with the opposition. That might once have been a viable compromise—but the opposition rejected it.

A small persuasive force

Even so, outsiders should tell the rebels that they cannot expect automatic recognition for their coup. And a Haiti that is to avoid more violence needs a transitional government, based on consensus, and some basic institutions. Mr Clinton disbanded Haiti's abusive army. But the new “community police” have been unable to maintain order. What is needed is a stiffer gendarmerie to disarm the gangs on both sides, as well as an electoral authority, to organise pending legislative elections and a presidential vote. Achieving this would require a small force of American troops. Canada and others have offered policemen. Civilian administrators would be needed, too. The UN would surely bless such a move.

The United States is no stranger to Haiti. The marines ran the place from 1915 to 1934. Some argue that this exercise in nation-building failed because the Americans left too soon—and compare this with what they fear may happen in Iraq. Yet it would be rash to draw wider parallels from Haiti's plight. In the

intensity of its underdevelopment, the country is all but unique in its region—a slice of Africa in the Americas. History has treated it harshly. Sugar made it France's richest colony. A slave revolt, inspired by the French revolution, created the world's first black republic two centuries ago. But newly independent Haiti never really recovered from the bloodletting of the independence struggle, and the fear this engendered elsewhere. France crippled it with reparations and the United States with a 60-year economic embargo.

Unpromising though the task is, Haitians should be encouraged to build their own nation. That requires the rebels, their sympathisers and Mr Aristide's supporters to act responsibly. Whether or not they do, the United States and its friends would do well, for humanitarian and political reasons, to exercise a little bit of neighbourly responsibility.

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Professional-service firms

Home torts from abroad

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At last, an international strategy that works

LIKE the drummers, messengers and concubines that accompanied ancient armies on the march, professional-service firms followed their industrial clients as they expanded around the world in the 1980s and 1990s. Wherever western multinationals went to set up or buy a new business, there too went their accountants, bankers, consultants and lawyers. From Moscow to Buenos Aires, the slick professional-service firms were ready at the drop of a flip chart to advise on what deals to do, how to finance them, how to compute their consequences and how to tie up all the messy loose ends.

It was heady stuff, and it led some of the firms to decide that they should follow their clients' example and go global as well. Ignoring the fact that it cost them far more to keep a man in Tashkent than it did in Paris, they nevertheless dispatched their ambassadors around the world and waited for them to attract the new business that would justify their cost. Most of them are still waiting.

The accounting firms, which were among the more aggressive globalisers, thought they could be drummer, messenger and concubine all at once. They took over consultancy businesses, finance companies and law firms, setting themselves up as global chains of one-stop shops. While you're in for an audit why not buy a bit of litigation too? And by the way, today we have a special offer on process re-engineering.

This was a strategy which created enormous managerial problems, in addition to introducing a cascade of potential conflicts of interest among firms' proliferating regulatory and professional duties. For some, such as Arthur Andersen, these problems and conflicts have already ended in disaster. For others, such conflicts are still being unravelled, a process which is being hastened by legislation. America's Sarbanes-Oxley act bans accounting firms from carrying out certain consulting and legal services for their audit clients, and there are growing restrictions on the provision of tax services as well. KPMG has become the first big accounting firm to abandon the legal business altogether. It is unlikely to be the last.

The “do everything everywhere” strategy has also been flawed for professional-service firms because no matter how multinational their clients, those clients buy very few of their professional services centrally. Purchases are, by and large, the responsibility of local managers. And what they are looking for is not the biggest global brand name in their neighbourhood directory, nor the firm with the broadest range of services on offer. They want the best service for each individual task, and the nature of professional services is such that “the best” invariably involves a combination of superior local knowledge and close customer-client relationships.

Besides, the managers of multinationals' far-flung operations are less and less likely to be expatriates these days. Russian subsidiaries now tend to be run by Russians, who prefer to buy services from fellow nationals with detailed knowledge of local conditions and rules. When those ancient armies had fought their battles and finally won, they left behind locals to run their hard-earned territories. The drummers, messengers and concubines returned home with the troops.

Yet there is a need for professional-service firms to be international, to a limited extent. Firms in the European Union increasingly need to take a transnational view of things. And someone has to co-ordinate the multinationals' local service-providers, be they auditors or patent lawyers.

A charmed existence

A small group of firms is showing how this should be done. The so-called “Charmed Circle” of blue-chip New York law firms has an enviable record of profitability combined with modest international expansion (see article). None of them has more than a quarter of its partners outside the United States. The two biggest law firms in the world, Baker & McKenzie and Clifford Chance, have made the most effort to be international. And yet they also come way down the profitability league. Clifford Chance, which merged four years ago with a German and an American firm, has found it particularly difficult to combine traditionally autonomous units in a way that makes the whole greater than the sum of its parts.

By contrast, most of the firms in the Charmed Circle have chosen to join an informal network of top-rank firms around the world whose aim is to provide its members with horses for particular legal courses, wherever they may be. The network's firms exchange lawyers and run joint training programmes. Things get done among such groups of individuals more by face-to-face persuasion than by the sort of top-down ripples of command used by their clients. Until someone proves there is a better approach, this seems the way forward for most other professional-service firms as well.

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Corporate crime

Lead bosses not into temptation

Feb 26th 2004
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How to make shares less of an inducement to corporate crime

Getty

"REMAINING CEOs make a break for it: band of roving chief executives spotted miles from Mexican border," joked a satirical website in 2002, as reports of corporate scandals reached fever pitch. Slowly but surely, the alleged outlaws have been rounded up. New York's courts this week saw a new trial begin, of members of the Rigas family which ran Adelphia. The trials of Martha Stewart, the life-style guru, and of Dennis Kozlowski, former boss of Tyco, continue. This month Jeffrey Skilling (right), erstwhile chief executive of Enron, was indicted for fraud and insider trading. Kenneth Lay, Enron's former chairman, remains under investigation.

Full marks, then, for prosecutorial effort—though it remains to be seen who actually goes to jail (see article). And yet even if successful, a few criminal trials can never themselves take the place of thorough reforms aimed at reducing the ability of bosses to misbehave. Following the hastily passed Sarbanes-Oxley act of 2002, much remains to be done, especially regarding a factor common to many recent scandals: the pernicious relationship between a boss and his firm's shares.

During the 1990s, American bosses were given vast amounts of shares and share options by their companies. In theory, this should have encouraged them to run their firm to maximise its value, to the benefit of all its shareholders. In practice, many bosses instead pursued a "pump and dump" operation: doing all they could to push up the share price, including using dodgy accounting, only to sell their shares at the top of the market before the truth emerged. Mr Skilling is accused, among other things, of making at least $66m by fraudulently boosting Enron's share price.

If Mr Skilling is convicted, that should deter others. Yet strikingly little else has been done to reduce the temptation for executives to trade their firms' shares in ways that harm other shareholders. True, there has been a modest reduction in the use of share options, an especially effective incentive to pump shares because options are worth a fortune if the share price rises above the exercise price, but nothing if it does not. Instead of options, firms now favour outright grants of shares—albeit restricted, so that the shares must be held for a period before their sale. This reduces the incentive for pumping, but certainly does not eliminate it.

One elegant solution would be to restrict executives from selling shares in their firm until long enough after they had retired for any misbehaviour during their tenure to come to light. But objections from executives that they want to use some of their wealth while they are still young enough to enjoy it should be weighed in the balance, and this makes a complete ban on share sales until after retirement seem extreme.

Tell before you trade

So if executives are to be allowed to sell (or, indeed, buy) their own company's shares while they are still working at a firm—and thus while they are better informed about its operations and prospects than any other investors—tougher rules are needed to protect fellow shareholders. Existing insider-trading laws are clearly inadequate, not least because the authorities lack the funds to pursue all but the most egregious cases. And making such laws effective may be harder than simply making it easier for market forces to keep bosses in check.

A simple and attractive way to bring market forces into play would be to require executives to pre-announce, by perhaps a week, their intention to trade. Executives would then be obliged to go through with the trade. This would give outside shareholders a chance to decide whether the trade was due to something a boss knew exclusively—in which case, the share price could rise or fall as appropriate, stopping the boss from profiting from that knowledge. Currently, trades must be revealed two days after they take place—an improvement on the up-to-six-weeks-later rule that was in place until recently, but still too late for investors to stop the boss cashing in.

This new rule would probably not prevent a huge, planned long-term fraud of the sort alleged to have been perpetrated by Mr Skilling. But creating conditions in which the buying or selling of shares by bosses is properly scrutinised by the market before a transaction happens would make it much more likely that the equity carrot promotes good behaviour by bosses, as it was supposed to do, not bad.

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Letters

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From The Economist print edition

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Backing Colombia

SIR – The members of the European Parliament who left the chamber during a speech by Colombia's president, Álvaro Uribe, demonstrated a complete lack of understanding about the country and of the 80% of Colombians who support him ("Battling for the moral high ground", February 14th). The act is symptomatic of a deeper misconception about Colombia. Europe consumes half the illegal drugs produced in Colombia. Drug exports help to finance the illegal activities of the FARC, ELN and other terrorists. Hence, Europe is partly responsible for supporting groups that commit on average 3,000 murders a year and more than 2,000 kidnappings.

Yet help from Europe is nowhere to be seen. America feels more responsible and has pledged $700m in social and military help this year. It is time for Europe to recognise that Colombia's rebels are not a force of freedom; they are a source of injustice.

Alberto Bernal
New York

Ukraine on my parade

SIR – Just two days before popular protests forced Georgia's president Edward Shevardnadze to resign, you noted pessimistically: "The president may survive, but at a high price" ("Ye shall not be saved", November 22nd 2003). Ukrainians may well lack the bravura and relatively free media of Georgians and also have a more resolute autocrat. But Ukraine's traditional attachment to liberty and independence will prove your dismal forecasts wrong again ("Doing it his way", February 7th).

Aytek Malkhozov
Paris

A call for subsidy parity

SIR – Rather than level the playing field in the airline industry, the European Commission's decision to label Ryanair's deal with Charleroi airport an illegal state subsidy only serves further to disadvantage low-cost airlines relative to their older, costlier rivals ("Grounded?", January 31st). Established carriers such as British Airways and Lufthansa enjoy large implicit subsidies as a result of gate-space charges that are levied below market price by airport authorities at their hubs. If the commission is serious about ridding Europe of state subsidies to airlines, it must examine benefits received by flag carriers and low-cost airlines alike.

Fred Link
Somerville, Massachusetts

Who's to blame?

SIR – Grzegorz Kolodko's attribution of Poland's economic ills to Leszek Balcerowicz is misplaced (Letters, February 21st). It is the present government's profligate spending habits, its inability to control a growing budget deficit, and its failure either to continue or initiate badly needed financial and social-policy reforms that largely contribute to Poland's present difficulties. The deregulatory policies pursued by

Mr Balcerowicz as finance minister in the Mazowiecki and Buzek governments set the ground for Poland's economic transformations: inflation in Poland dropped from over 249% in 1990 to 2% in 2002, GDP grew by an average of 5.2% from 1993 to 2000 and cumulative foreign direct investment grew to a sum of about $70 billion by 2003.

Mr Kolodko was deputy prime minister and minister of finance of a coalition government at a time when one of its principal aims was to turn the independent National Bank of Poland and the Monetary Policy Council, both headed by Mr Balcerowicz, into pliable instruments of day-to-day financial policy. Most infuriatingly, Mr Balcerowicz failed to co-operate. As a proponent of *dirigisme* and grand schemes, Mr Kolodko has often fallen out with Mr Balcerowicz, who is widely seen as the architect of Poland's economic reforms. In contrast, Mr Kolodko's name has become associated with flamboyant press conferences, a penchant for populist slogans and voodoo economics.

Jean-Jacques Granas
Warsaw

Risky business

SIR – Your survey of risk rightly points out the absurd risk-reward ratios in the area of environmental regulations and attributes much of it to the irrational fears of voters (January 24th). A critical factor in creating these irrational fears is ill-informed, ignorant and sometimes dishonest coverage by the media. The lack of balance and any basic scientific and statistical background displayed by many journalists in the pursuit of sensationalism is appalling.

Robert Savage
St Albert, Canada

SIR – People are often mistaken in their assessments of uncertainty, as you say. In the same issue you note that a respected doctor could not distinguish between “independent” probability and the probability that is a mathematical representation of uncertainty “conditional” upon other factors such as heredity or environmental factors not relevant to criminal liability (“The probability of injustice”, January 24th). Let this serve as a warning to those who minimise the importance of maths in our society.

Steve Lee
Los Angeles

SIR – Car accidents and smoking cause more deaths than terrorism, yet people worry more about terrorism because they distinguish between “fair” and “unfair” risks. Car accidents and smoking deaths are perceived as “fair” whereas terrorism is not.

Deep Sagar
Berkhamsted, Hertfordshire

SIR – Using the measure of dollars spent per life saved throws several key government actions into question. As you say, foremost is the war on terror, which has cost many billions of dollars and resulted in over 500 lives lost, while saving an unknown number. You seem relatively at ease with the claimed irrationality of the war on terrorism in light of the American public's seeming acceptance of the costs and the limits on civil liberties. It seems odd that the same benefit does not extend to environmental protection and health care. The American public has also accepted those costs and has repeatedly stated in polls that they would be willing to pay more for additional protection.

Bill Nickerson
Washington, DC

SIR – Avinash Persaud asserts that value-at-risk models have “massively increased the volatility of financial markets by forcing all investors to buy almost identical portfolios. The same VAR models then tell them all to sell at the same time.” This is outrageous. Management allocates VAR limits commensurate with the risks they would like to take on, thus having a say in the risk profile of a business. It is possible to produce an infinite amount of portfolios with the same VAR. Everyone will be in trouble when VAR models dictate buying and selling.

Tim Engelbert

London

Counter-attack

SIR – Lexington spews his venom at Michael Moore, referring to the Oscar-winning filmmaker as a "blowhard" and "conspiracy theorist" (February 14th). Lexington should avoid such unsubstantiated *ad hominem* attacks, lest his readers see him for what he is: a stupid bastard.

David Williams
Sodegaura, Japan

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Proliferation

A world wide web of nuclear danger

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Is there a will to control the network, and can a way to do it be found?

THE nuclear age is set for a long and perilous half-life. The palpable relief, as the cold war ended, that the threat of Armageddon—a nuclear fight to the finish between the Soviet empire and the West—had been lifted, has proved dispiritingly short-lived. If anything, the 21st century seems an even more dangerous, because less predictable, place.

There may be fewer nuclear weapons (albeit enough, still, to make the rubble bounce) in the collective stockpiles of America, Russia, Britain, France and China, the five official nuclear powers. But the risk that someone, somewhere, might detonate a bomb in anger is arguably greater than at any time since the 1962 Cuban missile crisis brought the cold-war world soberingly close to the brink.

Weapons ambitions are spreading, not just to states, but also to terrorist groups. Osama bin Laden has talked of acquiring nuclear weapons as a “religious duty”. The recently busted nuclear supply-chain masterminded by Pakistan's top nuclear scientist, Abdul Qadeer Khan, shows how easy it could be for those with enough cash to get their hands on the means to build nuclear, chemical, biological and radiological weapons. An added danger is that, while everyone but the culprits agrees in principle that the continuing spread of weapons of mass destruction, and the means to deliver them, now poses the chief threat to international security, in practice there is dismayingly little international accord on how to deal with that threat.

The leaking of weapons technologies is not new. There have been some noble efforts over the years to stem the flow: notably, the post-cold-war effort led by the United States to safeguard the weapons, materials and scientific brains belonging to the former Soviet Union. Yet the decades-long anti-proliferation effort is now under growing threat on many fronts: from regional arms races, from treaty benders and breakers, from leaky export controls worldwide and, as the recently uncovered exploits of Mr Khan have shown, from a burgeoning and alarmingly well-organised black-market.

Outlaws outside and inside the treaty

There is supply in the proliferation business, as in any other, because there is demand. Israel, India and Pakistan have stayed outside the Nuclear Non-Proliferation Treaty (NPT), yet are nuclear powers in all but treaty-speak. Each has simmeringly unstable conflicts going on in its region, yet very little in the way of crisis-management or confidence-building practice, should military push ever come to shove. And,

outside the treaty, these countries are not legally bound by its strictures against supplying or receiving weapons technology.

North Korea, Iran and Libya, by contrast, are NPT members who have abused their right under the treaty to enjoy the benefits of civilian nuclear technology. Last year, North Korea became the first country to claim to have quit the NPT (legal minds differ over whether the claim stands, since the correct exit procedures were not followed).

But the “extraordinary event” that caused it to want to invoke its supreme interest and leave, as the treaty allows, was nothing more high-minded than a fit of pique at being caught cheating for a second time. It was confronted with American evidence that it had been amassing the equipment and technology to produce bomb-usable uranium. A first covert weapons effort a decade earlier had relied on making more plutonium than was admitted to international inspectors.

Since then both Iran, reluctantly and still incompletely, and Libya, suddenly last December and surprisingly enthusiastically, have owned up to nuclear experiments and programmes that had been hidden for years (in Iran's case, 18 years) from the International Atomic Energy Agency (IAEA), whose job it is to verify compliance with the NPT's non-nuclear rules. So far Libya is the only one of the NPT's insider outlaws to admit to have been planning to enrich uranium for a bomb. It even handed over a proven warhead design obtained from those entrepreneurial Pakistani nuclear scientists, who originally got the design years ago from China.

Unlike prodigal Libya, or defiant North Korea—whose claim to a “physical deterrent” is this week the subject of six-way talks in Beijing that also include America, South Korea, Japan and Russia—Iran still flatly denies any weapons intent. Yet its claims simply to want to produce electricity from nuclear power, as the NPT allows, ring increasingly hollow.

In recent weeks the IAEA has found that Iran had conducted more nuclear experiments and acquired more sophisticated designs and parts for uranium-producing centrifuges than it had grudgingly owned up to last October. At that time, it claimed that this confession was the full story of its covert nuclear programme.

There is now speculation that it may have bought the same proliferation package through A.Q. Khan Inc. as Libya and possibly North Korea: bomb-design, and all. At the very least, it has worked hard, in secret, and against the treaty's spirit and letter, in directions that would allow it to keep a nuclear-weapons option open for the future. Its nefarious nuclear activities, like Libya's, will be up for discussion shortly by the IAEA's board of governors.

But while there had long been suspicions that North Korea, Iran and Libya (and, at times, Iraq, Saudi Arabia, Syria, Egypt and Algeria, among others) were up to no nuclear good, hard evidence of cheating is devilishly difficult to come by. That is what makes Libya's new tell-all strategy, trading in its nuclear, chemical and missile secrets (it denies having any biological ambitions) for better commercial and diplomatic relations with America and Europe, so startlingly welcome.

Flat-packs for sale on the black market

As much as anything, it is the sheer scale of the proliferation operation set in train by Mr Khan and his associates that shocks. Originally set up to furnish what Pakistan secretly needed for its bombs, it was later turned around to funnel supplies to countries that were cheating secretly on their NPT promises.

On offer was everything from blueprints to machinery and nuclear materials, and even after-sales advice, by companies (some no doubt wittingly, some unwittingly) and middlemen operating across Europe, the Middle East, Africa and Asia. Buyers could order sophisticated centrifuge machines like so many flat-pack kitchen cabinets, boxed ready for self-assembly. Hence the worry that terrorist groups or individuals, not just rogue governments, might have tapped into this ubiquitous network.

Previous shocks like this have jolted the anti-proliferation warriors into more concerted action, so might it happen again? After the 1991 Gulf war, when inspectors discovered just how close Iraq had come to having a bomb of its own without their knowing, verification rules were drastically revised. In states that apply what the IAEA calls its Additional Protocol, inspectors have much broader rights than they used to, both to demand all kinds of information about a country's nuclear industry, and to poke about looking for illicit activity. But so far only a disappointing 39 of the NPT's more than 190 members apply the protocol

(nor were North Korea, Libya or, until very recently, Iran among them). And, this time round, even more drastic action seems called for.

Iran's activities in particular have shown up a basic flaw in the original nuclear bargain enshrined in the NPT more than 30 years ago: that any member should have the right to enjoy the full benefits of civilian nuclear power in return for their promise not to turn their nuclear skills to military use. Back then, few countries had mastered the sophisticated and costly techniques of nuclear fuel-cycle technology, and few were expected to try.

But things have not turned out that way. Technologies for enriching uranium and producing plutonium—both potential fissile ingredients for a bomb—that were initially spread by America, Canada and European governments for the peaceful purposes the treaty intended, are now widely understood and increasingly abused. Canada, for instance, was shocked to discover after 1974 that plutonium from a power reactor it had supplied to India was used in that country's first “peaceful nuclear explosion”.

A country able to enrich uranium for use as fuel in an electricity-generating plant or a research reactor is capable, without much more ado, of enriching it further to weapons-grade. Similarly, spent fuel-rods from civilian reactors are heavily laced with plutonium. Its extraction is easier to master than the technology for producing uranium. In other words, the only real difference between a civilian nuclear fuel-cycle and a military nuclear fuel-cycle is one of intent.

Other skills are needed too to produce a nuclear bomb. But getting hold of the right sort of uranium or plutonium is the biggest barrier to entry into the bomb-making business. That hurdle overcome, a country such as Iran can come perilously close to the military capability it is suspected of seeking, even while it virtuously sticks to the letter of the IAEA's tightened verification rules.

Heightening suspicion, Iran's enrichment programme was not declared to the IAEA as it should have been, but uncovered last year using information from the regime's opponents. After this discovery, Iran signed (though has not yet ratified) the Additional Protocol. But it insists it will resume enriching uranium—only “temporarily” suspended, it claims, under a tension-reducing agreement with Britain, France and Germany last October—whenever it chooses, and will eventually offer its own nuclear fuel for export.

Its enrichment skills, along with the nuclear-capable missiles it has developed with help from North Korea, China and Russia, give it all the major components needed to build usable nuclear weapons. Since the NPT requires only three months' notice to quit, if Iran can avoid further censure or sanction—and Russia, for one, is keen to get back to nuclear business as usual, supplying start-up fuel for Iran's almost completed reactor at Bushehr—it could still hope to use the treaty as cover for an eventual quick nuclear break-out.

Nor is Iran the only concern. Brazil, whose current government has said troublingly ambiguous things about its nuclear ambitions, recently announced that it, too, would soon start enriching uranium, to provide fuel for its nuclear power industry. It has refused to accept the more intrusive checks of the IAEA's Additional Protocol. That alarms Argentina, which like Brazil had a nascent nuclear programme until the two ditched their respective military regimes, and signed a mutual inspection agreement in 1991.

Towards a nuclear-safer world

So, is it time to tear up the NPT and start again? Or should it be rejigged somehow to close the obvious loopholes? Or is it simply a matter of enforcing more purposefully the rules that already exist? Unfortunately, the only real agreement so far is that rewriting the treaty is not an option.

Next year's five-yearly treaty review already looks likely to turn into a bad-tempered huddle. Many governments view as discriminatory the existing restrictions imposed by the Nuclear Suppliers' Group (NSG), an informal cartel that brings together most of the world's leading nuclear exporters (China is

soon to be included in the group), and attempts to control the trade in dual-use nuclear technology and equipment.

Others fret that commitments made by the five nuclear-haves when the treaty was extended indefinitely in 1995 have not all been met. America's president, George Bush, refuses to ratify the promised Comprehensive Test-Ban Treaty. And while nuclear-weapon numbers have come down (of the five, only China is still expanding its arsenal), they could fall a lot further. Meanwhile, America is conducting research into bunker-buster bombs, for possible use against deeply buried targets, and small nuclear warheads. Why should countries that feel insecure not be tempted to build nuclear weapons, ask critics, when the world's strongest military power still thinks it might need new ones?

Even so, might there not be support for additional proliferation-proof measures that would strengthen the treaty without reopening it? Some ideas that sound commonsensical have been broached, but not as yet seriously considered. These include suspending nuclear dealings with countries under IAEA investigation for seriously breaching safeguards, or finding ways to stop or sanction countries, such as North Korea, which claim the right to walk away from the treaty after wilfully breaking its rules.

More tentatively, feelers have been put out, since the war with Iraq, to consider alternative security solutions for regional tensions, such as a zone free of all weapons of mass destruction (Israel's included) in the Middle East. And there is a long-standing proposal for a treaty to end the production of fissile materials—a way of drawing Pakistan, India and Israel into the wider non-proliferation effort.

Searching for a way to block the few countries intent on weapons, while preserving the legitimate benefits of civilian nuclear power for the many, Mohamed ElBaradei, the director-general of the IAEA, suggested in these pages last October that enrichment to produce uranium, and reprocessing to extract plutonium from spent reactor-fuel, be limited to facilities under multinational control and, by implication, IAEA supervision. Mr ElBaradei likewise wants to explore multilateral ways of storing and disposing of nuclear waste. The current rule—that those who produce the waste also store it—has left a lot of spent fuel under temporary storage in more than 50 countries.

The idea of pooling enrichment efforts—something long done in Europe—has attracted some interest. Countries that formed a consortium to manage jointly an enrichment plant, would not only have reliable access to the fuel they need for electricity generation, and be able to share the considerable costs of producing the nuclear fuel, but would also all be able to check that agreed enrichment levels were not exceeded.

Yet such plans also have their critics. Multinational negotiations could be difficult and drawn out. What is more, regional enrichment centres, say in Latin America, or South-East Asia where a number of governments have expanding nuclear-power plans, might themselves end up spreading enrichment and reprocessing skills more widely. And given recent revelations, would neighbours be reassured by an enrichment consortium of, say, Pakistan, Iran and Afghanistan, or North Korea and Myanmar (separated by geography but reportedly co-operating closely in increasingly troubling ways)?

Earlier this month, Mr Bush proposed a swifter, but potentially more divisive, set of remedies. He suggested that the NSG should refuse all nuclear trade with countries that have not accepted the IAEA's Additional Protocol; that members undertake to provide civilian nuclear fuel at reasonable cost to countries that renounce enrichment and reprocessing; and that they refuse to sell such fuel-cycle technology to any country that does not have a fully working plant already.

This would have the benefit of encouraging more countries to sign up for toughened safeguards. But some will see the proposal as just another American-led effort to thwart legitimate nuclear-power ambitions. And would other NSG members agree? After the NSG resolved some years ago not to engage in nuclear trade with countries that did not have all their nuclear facilities under IAEA safeguards, Russia broke ranks to negotiate with India on the building of new nuclear reactors there.

Make it a criminal offence?

Equally controversial are recent efforts to enforce existing rules more vigorously. Few would argue with Mr Bush's suggestion that a $20 billion fund, set up two years ago by the G8 rich nations to speed up the safeguarding of Russia's weapons secrets and materials, be extended to other willing countries: Iraq and Libya are the two obvious immediate candidates. Yet pledges of usable cash have been slow.

A proposal that the UN Security Council, which has already declared the spread of weapons of mass destruction to be a threat to peace and security, should criminalise trafficking in such weapons has yet to be acted on. Yet such a resolution could help prod into action those (many) countries without proper export controls or the means to enforce them.

Meanwhile, those who cannot or will not do the enforcing themselves now risk having it done for them. The sort of international co-operation that led to the seizure of a shipment of centrifuge parts to Libya last year—speeding Colonel Muammar Qaddafi's decision to cash in his nuclear chips—is now being practised hard by the 16 countries that have banded together at American urging under the Proliferation Security Initiative (PSI).

Set up initially to interrupt North Korea's illicit weapons-related trade—both imports of nuclear materials, and the export of missiles, drugs and counterfeit dollars to finance them—the PSI will have global reach. Calling their group an “activity, not a club”, PSI countries will look for help from as many other governments as possible. Thus far, however, Russia and China, two countries with a poor proliferation record in the past, have stood somewhat aloof from the action.

Making life more uncomfortable and less profitable for the proliferators is one way to repair some of the damage done to the credibility of the NPT. Nudging Libya to confess more readily to having a nuclear past has also increased the diplomatic pressure on Iran and North Korea to come cleaner too, and set a standard of openness to measure them by. Yet, more reassuring than simply catching those who have already broken the rules, would be broader agreement on ways to prevent them being broken so easily, and so often.

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Gay marriage

New fuel for the culture wars

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From The Economist print edition

AP

The proposed constitutional ban on gay marriage adds thorny legal and political questions to a troublesome moral debate

AT A speech to the Republican Governors' Association on February 23rd, George Bush argued that voters face a stark choice between “two visions of government”: one (his) that encourages individual freedom, the other (the Democrats') that “takes your money and makes your choices”. Twelve hours later, he presented Americans with an equally stark question: do you want a constitutional ban on gay marriage? By any measure, this would take away gay Americans' choice. By supporting the proposed ban, President Bush has re-ignited the culture wars, given a new, possibly nastier character to the presidential race and committed America to a long, maybe unresolvable, debate about fundamental mores.

America's culture wars have the virtue of ventilating profound questions of personal behaviour and responsibility. Their drawback is that they are sometimes poisoned by majoritarian actions. So it may be this time. The underlying issue of gay marriage turns on basic attitudes towards sexuality, on the extent to which marriage should be buttressed by law, and on whether gay marriage would undermine the institution itself. But the particular form in which the issue is now being presented—as a proposed amendment to the federal constitution—raises questions about who should make decisions like this and what is the proper role of the state and federal governments.

Supporters of a constitutional ban want to stop gay marriages everywhere, of course. But in practice they focus on a slightly different issue: how to stop gay marriage spreading from state to state through a clause in the constitution that says “full faith and credit shall be given in each state to the public acts, records and judicial proceedings of every other state.” The fear is that, as the president put it, “some activist judges and local officials” will permit gay marriage in one place. Gays from all over the country will then rush to marry, return home and sue in their home state's courts to have their marriage contract recognised. In support of this view, proponents of the ban point out that, in practice, states always recognise each other's marriage laws. Gay marriage would be no exception.

They point out that the federal government has twice stepped in to strike down marriage laws deemed acceptable in one state but not elsewhere. In both cases, this involved polygamy among Mormons, first when Lincoln banned bigamy in 1862 (the Morrill Anti-Bigamy Act) and again in 1890 when the federal government insisted Utah outlaw polygamy as a condition of becoming a state. If the feds can ban polygamy, why not gay marriage too?

Lastly, they argue, a constitutional ban would stop only marriage among homosexuals, not civil unions. States could still, they claim, write their own laws granting gays some legal rights short of marriage, as Vermont has done.

Opponents of the ban reject these arguments one by one. Most important, they say, proponents are factually and legally wrong about the constitution's “full faith and credit” clause. It has long been established in law that if an issue comes within the purview of states, and if states have their own public policy on that issue, then they do not have to recognise another state's law. This exception is essential to the operation of the federal system itself, which would otherwise be rendered meaningless.

There is no doubt that marriage is a matter for the states, not the federal government. It has been so for centuries. There is no doubt that many states have their own policy, since 38 have passed “defence of marriage acts” defining marriage as the union of a man and woman. It is true, opponents concede, that states have always recognised each other's marriage laws. But that was because there was consensus. Now that the consensus is fraying, Texas (say) will not be required to recognise a gay marriage made in Massachusetts. The result will be messy, but that is the price of federalism.

Moreover, opponents of a ban point out, the “full faith and credit” clause gives Congress a role in deciding “the manner in which such acts, records and proceedings shall be provided”. Congress made clear its view by passing, in 1996, its own Defence of Marriage Act. In sum, opponents say, the constitutional defences against extending gay marriage by judicial activism are strong.

Lastly, they claim, proponents of a constitutional ban are plain wrong—or lying—when they say their amendment would permit civil unions. As it stands, the proposal before Congress would prevent “marital status or the legal incidents thereof [being] conferred upon unmarried couples or groups”. If the phrase “legal incidents thereof” means anything, it must refer to civil unions. These would be banned.

Could such an amendment pass? Since the Bill of Rights, there have been only 16 amendments in 200 years. Most guarantee or extend the operation of democracy (such as women's suffrage), rather than defend social norms (such as Prohibition). Any amendment requires the approval of three-quarters of the states, plus a two-thirds majority in both houses of Congress.

This looks hard, but is not out of the question. Three-quarters of the states have passed laws banning gay marriage, though some might vote against an amendment on states'-rights grounds. The decisive factor, though, will be public opinion.

It is often said that Americans disapprove of gay marriage but support civil unions. Not so. Gay marriage is more unpopular than unions (about 60% dislike the former), but, depending on how the question is asked, a small majority disapproves of civil unions too. That suggests that public pressure on legislators could be strong.

But opinion is fluid. It is sensitive to news. Support for an amendment rose when the Supreme Court struck down Texas's sodomy law last year. It shifts depending on how the debate is framed: the more you talk about equal rights under the law, the greater the support for civil unions. And there is a yawning generation gap: 55% of 18-29-year-olds support gay marriage, but only 21% of those over 65.

Mr Bush may therefore be taking a bigger political gamble than is apparent on the surface. Democrats complain that by supporting a constitutional ban he is seeking a “wedge issue” for the election (something that splits Democrats but unites Republicans). And it is true that Republican-voting evangelicals strongly support a ban, and may well turn out in even greater numbers as a result. But Republicans too are split on the ban. Libertarians dislike legislating on sexual behaviour. Federalists deplore the proposed overriding of a core competence of states. Around 1m gays voted Republican in 2000.

So there are costs as well as benefits for the president. And those costs may spread to the country as a whole. In *Roe v Wade* in 1973, the Supreme Court imposed a uniform law on a country divided and in flux on abortion. The issue still splits the nation. A constitutional amendment would stop state experimentation and impose a national norm on a country divided and in flux about gay marriage. Debate could fester for years.

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John Edwards's campaign

His last hurrah?

Feb 26th 2004 | COLUMBUS, GEORGIA, AND YOUNGSTOWN, OHIO
From The Economist print edition

Some corners of the country still favour him. But they are getting fewer

WHILE John Kerry was adding Hawaii, Idaho and Utah to the feathers in his cap, John Edwards, his only remaining rival for the Democratic nomination, tried to stay undaunted. His best chances in next week's multi-state vote, Super Tuesday, lie in Ohio and Georgia. This week he was there, rallying the troops.

In Youngstown, a faded mill town in north-east Ohio, the crowd packed into the local Teamsters hall on February 22nd seemed ideally suited to hear his stump speech about America's haves and have-nots. Youngstown was once a leading steel town, but most of that business has fled to lower-cost places, leaving the hulking mills behind. Unemployment is high, and despair hangs in the air. Mr Edwards got a rousing reception from the crowd, which included husky veterans in “Desert Storm” jackets, white-haired grannies and ribald Pittsburgh Steelers fans. The only thing missing was what he wanted most: a union endorsement. The Teamsters union had already endorsed Mr Kerry.

Therein lies the challenge for Mr Edwards in the final days. His message appeals to the many Ohioans who have lost their jobs, especially in the Rust Belt aroung Youngstown, but Mr Kerry's clear momentum has helped him win some key endorsements. A loss in Ohio, rich in electoral votes, could be fatal to the Edwards campaign. He is pinning his hopes on the state's “open primary” system, which lets independents and cross-over Republicans cast ballots in the Democratic primary; this served him well in Wisconsin.

Worry about jobs and the economy is strong in Ohio. “Remember the SHAFTA you got from NAFTA,” said a banner hanging in the Teamsters hall. Mr Edwards's voting record on trade—and many other issues—is very similar to that of Mr Kerry. But many Ohio Democrats who long to oust Mr Bush from the White House (he won the state in 2000) still say Mr Kerry is likelier to beat him.

Far away and far to the south, Georgia is the other centre of Mr Edwards's hopes. It should play to his strengths, being southern and ambivalent about the economic recovery. The state gained 64,000 jobs in 2003; but as Rajeev Dhawan, head of the Economic Forecasting Centre at Georgia State University, points out, 85% of these were “low quality” jobs in leisure services and hotels, not high-paying jobs in factories and computers. DaimlerChrysler has dropped plans to build a new plant outside Savannah, and more than a quarter of Atlanta's offices are vacant.

In Columbus, a close-knit town of 186,000 near the Alabama border, the crowd that waited for Mr Edwards on the night of February 23rd was large and mostly middle-aged. Their town has been unlucky. Once busy in cloth-manufacturing, it has had to move in other directions. A local credit-card processing firm is referred to as the “new mill”. Since 2001, Columbus has lost 3,500 manufacturing jobs and more than 1,500 jobs in information. Of all Georgia's cities, it has the highest unemployment rate—5% in December 2003. When Mr Edwards at last took to the stage, his denunciation of outsourcing drew the loudest cheers of the night.

So, despite Georgia's Republican bent, there is plenty of dissatisfaction for Democrats to exploit. But can Mr Edwards do it? For someone who has made so much of his southern, son-of-a-mill-worker roots, he offered an oddly bland speech, with only one reference to growing up in the Carolinas and none to Columbus's plight. The listeners did not seem to mind.

Even when he casts himself as a populist, Mr Edwards has tended to draw more moderate voters. Normally this would be an advantage in Georgia, since, as in Ohio, party registration is not required for a primary vote. But this year Georgians will also be voting on whether to approve a state flag based on the Confederate “stars and bars” design—not an issue that tends to attract moderates.

Mr Kerry does not have Georgia wrapped up, and it is possible that towns like humble Columbus may help Mr Edwards to victory. But those may be some of the last cheers he hears.

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Ralph Nader's bid

Lethal, or useful?

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Hypocrisy on all sides as that man surfaces again

IT IS as if Delilah had come back to run for president of Judea. For Democrats, Ralph Nader's decision to run again for the presidency, as an independent, is shocking. Many former supporters begged him not to. “It's about his vanity,” huffed the Democratic governor of New Mexico, Bill Richardson, himself no stranger to that weakness. Most Washington pundits treated the candidacy of America's best-known consumer advocate as an offence against the two-party duopoly. “We are very disappointed,” said the Democratic National Committee's spokeswoman.

The spoilers

Third-party candidates in US elections

Selected years

Year	Candidate	Party	% of popular vote
1912	Theodore Roosevelt*	Progressive (Bull Moose)	27.4
1992	Ross Perot	Indep. candidate	18.9
1924	Robert La Follette	Progressive	16.6
1968	George Wallace	American Independent	13.5
1892	James Weaver	Populist	8.5
1996	Ross Perot	Reform	8.4
1980	John Anderson	Indep. candidate	6.6
1912	Eugene Debs†	Socialist	6.0
1880	James Weaver	Greenback	3.3
2000	Ralph Nader	Green	2.7
1948	Strom Thurmond	States' Rights	2.4
1948	Henry Wallace	Progressive	2.4

*In second place, behind Woodrow Wilson †In fourth place

In 2000, Mr Nader won 2.7% of the vote. In several states, notably Florida and New Hampshire, his tally was several times George Bush's margin of victory. But this time he will find it hard even to get on the ballot in many states. North Carolina, for example, requires 100,000 signatures—four times the total vote in the state for all independent candiates in 2000. If Mr Nader gets 1% of the vote nationwide in November, he will be doing well.

His decision to run is hardly a surprise. He has a record of turning on people you might think would be his natural allies. In the 1970s he bitterly criticised Ed Muskie, a Democratic senator who helped write the Clean Air Act for which Mr Nader campaigned. He seems to operate on the principle that, if you attack your friends, they will do even better next time.

Will that work again? It seems improbable. This time, Mr Nader's cause is the pernicious influence of corporate money and lobbying on American government. In theory, everybody disapproves of this. All the leading Democratic contenders have railed at corporate lobbying. In 2002 President Bush signed the most important attempt in a generation to reduce the influence of money in politics, the McCain-Feingold bill. As Mr Nader says, rarely has a candidacy been so fiercely criticised by people who agree with it.

The real question, though, is not whether Mr Nader is justified in running but how effective he is likely to be. Not very, it seems. He argues that on the issues that really matter to him, Democrats and Republicans are as bad as each other. But take workplace safety, for which he has long campaigned. The Bush administration scrapped an extensive upgrading of health and safety laws proposed in the last days of the Clinton administration. On that issue, the parties are wide apart.

As for corporate lobbying, there is as much of it going on as ever. The change is that Republicans in Congress and the White House have worked together unusually closely on Mr Bush's legislative agenda. It is party discipline that has changed—and some (though not all) corporate lobbyists have benefited. Again, that does not support Mr Nader's arguments that the parties are both the same.

Anyway, Mr Nader may not be the best critic of interest-group politics, because he himself is a prime example of the breed. In “The New Liberalism” (Brookings Institution Press), Jeffrey Berry, a professor at Tufts University, has tracked the influence of consumer advocacy and environmental groups since the 1960s. He concludes that they have been more effective than corporate lobbyists in getting their case across. Between 1963 and 1991, he says, groups such as Mr Nader's own Public Citizen were better at persuading Congress to discuss issues they cared about, better at catching journalists' attention, and so more efficient in shaping laws.

Mr Bush has tilted the balance towards corporate lobbyists, but both the players and the game remain the same. Mr Nader is offering not an end to lobby-group politics, but a shift from one set of lobbyists (those of corporations) to another set (his very own).

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The electoral week

Primary colour

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Terms of Endearment

“Voters find Kerry aloof and distant, they find Edwards smooth and enticing. Women really find him sexy. Men like his personality.”

Frank Luntz, pollster, on the Democratic field, New York Times, *February 22nd*

Their kinda guy
% of Americans who agree with each statement of character*

	Bush	Kerry
Has strong moral character	72	62
Is a strong and decisive leader	65	59
Is honest and trustworthy	55	61
Shares your values	52	53
Did his duty for the country during Vietnam	42	68
Generally agrees with you on issues	47	52
Stands up to special-interest groups	45	44
Has a clear plan for solving America's problems	42	42

Source: Gallup *February 16th-17th

A Man for All Seasons

“The candidates are an interesting group, with diverse opinons—for tax cuts and against them, for NAFTA and against NAFTA, for the Patriot Act and against the Patriot Act...And that's just one senator from Massachusetts.”

President Bush, February 23rd

Gladiator

“Particularly with the Nader threat, it's better for the party and everyone else that I stay in.”*Al Sharpton's latest excuse for going on, “Anderson Cooper 360”, CNN, February 23rd*

All Quiet on the Western Front

“The president served his country very honourably too, he signed up for dangerous duty, he volunteered to go to Vietnam, he wasn't selected to go, but nonetheless he served his country very well.”

Mr Bush's campaign chairman on “Morning Edition”, NPR, February 23rd

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Home-schooling

George Bush's secret army

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From The Economist print edition

A revolution is happening in American education. As it grows in size, it should frighten teachers everywhere

Get article background

JUST how bad are American schools? And how deeply do conservative Americans distrust their government? One answer to both these questions is provided by the growth of home-schooling. As many as 2m American students—one in 25—may now be being taught at home.

The growth of home-schooling is all the more remarkable when you consider two facts. The first is the commitment of the parents. They give up not just a free public education, but also often the chance of a second income as well, because one parent (usually the mother) has to stay at home to educate the children.

The next is that the practice challenges most of the assumptions behind public education. For most of the past 150 years, compulsory mass education has been the hallmark of a civilised society. Sociologists such as Max Weber have hailed the state's domination of education as a natural corollary of "modernisation". Yet in the most advanced country on the planet (on many measures), more than 2m parents insist that education ought to be the work of the family. How has this come about?

Faith's imperatives

The 2m figure comes from the Home School Legal Defence Association. The most recent (1999) survey by the Department of Education put the number at only 850,000. The chances are that the HSLDA is closer to the truth. Rod Paige, the education secretary, uses its figure in his speeches, and, although home-schoolers tend to refuse to answer government surveys, a wealth of anecdotal evidence suggests that home-schooling is on the rise.

The market for teaching materials and supplies for home-schoolers is worth at least $850m a year. More than three-quarters of universities now have policies for dealing with home-schooled children. Support networks have sprung up in hundreds of towns and cities across the country to allow parents to do everything from establishing science labs to forming sports teams and defending their rights and reputation. When J.C. Penney started selling a T-shirt in 2001 that featured "Home Skooled" with a picture of a trailer home, the store faced so many complaints that it withdrew the item from sale.

Home-schooling is a fairly recent phenomenon. When Ronald Reagan came to power, in 1981, it was illegal for parents to teach their own children in most states. Today it is a legal right in all 50 states. Twenty-eight states require home-schooled children to undergo some kind of official evaluation, either by taking standardised tests or submitting a portfolio of work. Thirteen states simply require parents to inform officials that they are going to teach their children at home. In Texas, a parent doesn't have to tell anyone anything.

The main reason why legal restrictions on home-schooling have been swept away across so much of America is the power of the Christian right. Not all home-schoolers, of course, are religious conservatives. One of the first advocates of home-schooling, John Holt, was a left-winger who regarded schools as instruments of the bureaucratic-industrial complex. A lively subdivision of the home-school movement, called "unschooling", argues that children should more or less be left to educate themselves. And the number of black home-schoolers is growing rapidly.

Yet the Praetorian Guard of the home-schooling movement are social conservatives. They turned to home-schooling in the 1970s in response to what they saw as the school system's lurch to the secular left—and they still provide most of the movement's political muscle on Capitol Hill. Senator Rick Santorum home-schools his children—or, rather, his wife does. Another Republican home-schooler, Congresswoman Marilyn Musgrave, sponsored a bill to clear up various legal confusions about grants and scholarships for home-schooled children.

George Bush has tried hard to keep home-schoolers on his side. During the 2000 campaign, he said: “In Texas we view home-schooling as something to be respected and something to be protected. Respected for the energy and commitment of loving mothers and loving fathers. Protected from the interference of government.” As president, he has held several receptions for home-schooled children in the White House.

Just as the teachers' unions provide so many of the Democrats' volunteers, home-schoolers are important Republican foot-soldiers. According to the HSLDA, 76% of home-schooled young people aged 18-24 vote in elections, compared with 29% in that age group in the general population. Home-schoolers are also significantly more likely to contribute to political campaigns and to work for candidates—normally Republican ones.

An education that works

So there is certainly an ideological edge to many home-schoolers. But do not be misled. First, this is a bottom-up movement with parents of whatever political stripe making individual decisions to withdraw their children (rather than following orders from higher up). Second, the movement has a utilitarian edge. Home-schoolers simply believe that they can offer their children better education at home.

One-to-one tuition, goes the argument, enables children to go at their own pace, rather than at a pace set for the convenience of teaching unions. And children can be taught “proper” subjects based on the Judeo-Christian tradition of learning, rather than politically correct flimflam. Some home-schoolers favour the classical notion of the trivium, with its three stages of grammar, dialectic and rhetoric (which requires children to learn Greek and Latin).

This sounds backward-looking, but home-schoolers claim that technology is on their side. The internet is making it ever easier to teach people at home, ever more teaching materials are available, and virtual communities now exist that allow home-schoolers to swap information.

The other factor working in home-schooling's favour is its own success. Many parents have been nervous about home-schooled children being isolated. With almost every town in America now boasting its own home-schooling network, that worry declines. Home-schooled children can play baseball with other home-schooled children; they can go on school trips; and so on.

What about academic standards? The home-schooling network buzzes with good news: a family with three home-schooled children at Harvard; a home-schooler with a bestselling novel; first, second and third place in the 2000 National Spelling Bee; a first university for home-schooled children (see article). Systematic evidence is more difficult to find.

There are certainly signs that home-schoolers are thriving. One recent survey by the HSLDA showed that three-quarters of home-educated adults aged 18-24 have taken college-level courses compared with 46% of the general population. But this is hardly conclusive. Home-schoolers do not have to report bad results. Moreover, home-schoolers may simply come from the more educated part of the population.

Yet these arguments point to change in the way the debate is unfolding. It is no longer about whether home-schooled children are losing out, but whether they are doing unfairly well. “Maybe we should subcontract all of public education to home-schoolers,” Bill Bennett, Mr Reagan's education secretary, once wondered mischievously. That looks unlikely. But America's home-schoolers represent an assault on public education that teachers everywhere should pay attention to.

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The next stage

Dreaming of spires

Feb 26th 2004 | PURCELLVILLE, VIRGINIA
From The Economist print edition

A university for home-schoolers

Get article background

IF ANY building symbolises the ambition of the home-schooling movement, it is Patrick Henry College in suburban Virginia. This conservative university, which opened in 2000, may have only 242 students; but it plans to expand its undergraduate school to 1,600 and to add a law school of 400. More than four in five of its students are home-schooled.

The college's two passions are “liberty and God”. Its walls are covered with portraits of the Founding Fathers, with dormitories named after their houses (Monticello, Mount Vernon and so on). Although lively debate goes on between the college's Jeffersonians and Hamiltonians about exactly how small the government should be, the general idea is that it should be tiny. The college gets no government money.

Next stop, Capitol Hill

Yet religion is also omnipresent. The ubiquitous pictures of the Founding Fathers often show them in prayer: Washington, for example, on bended knee at Valley Forge. The college has copies of the first prayer said in Congress. One of its roads is called “Covenant Drive”. Student applicants have to write an essay describing their “relationship with Jesus Christ and [their] personal walk of faith”, and the professors sign a “Statement of Biblical Worldview” that emphasises the literal truth of the Virgin birth and the creationists' account of the origins of the universe. Alcohol and tobacco are banned, and students are strongly encouraged to involve their parents if they start a relationship with another student. The college's founder, Michael Farris, describes the place as “a refuge from sex, drugs and rock 'n' roll. Well, at least sex and drugs.”

The college wants to produce not just good Christians, but effective ones. “Just as your parents' calling was to turn around a generation for Christ,” Mr Farris tells his charges, “your calling is to turn our nation back to a Godly foundation.” The academic dean, Paul Bonicelli, thinks that Christian schools ought to put as much emphasis on academic excellence as on spiritual values. Patrick Henry's curriculum includes philosophy, logic, a foreign language, history, biblical studies, economics, literature, sciences, Euclidian geometry and classical Greek or Latin.

The students practise confronting alternative world views. One student mounted a successful campaign, as part of his college course, to close the adult section of a local video store. “I do not want a graduate's first encounter with nihilism or materialism to be at a banquet on Capitol Hill surrounded by atheists and worldly antagonists,” says Robert Stacey, chairman of the government department. Students have been dispatched to work as interns in Karl Rove's White House office and on Capitol Hill, and one graduate now works in Paul Bremer's office in Iraq. The college is also considering setting up a film school, having already brought in members of a Christian screenwriters' group in Hollywood to teach a class in screenwriting.

Despite this abiding sense of mission, the students are far from identikit conservatives. Steven, for instance, who was home-schooled in Midland, Texas, litters his conversation with references to Michel Foucault and is so worried about his home state's “over-application” of the death penalty that he wants to get a job with an organisation that seeks to reform, though not abolish, it. Several students admit to

being puzzled by much of George Bush's foreign policy and by the divisions between America and Europe.

That said, their political sympathies are clearly with the president. “I just like the guy,” explains Abigail, who thanks God that Mr Bush was in office on September 11th. Kristen hopes to work for the Bush re-election campaign, and in the longer term she plans to focus on foreign policy. She believes that Christians have opted out of the debate, and should use their God-given talents to reshape global institutions in the same way as they have remoulded domestic policy.

Patrick Henry makes no secret of its links with the wider conservative movement. There are signed Christmas cards from the Bushes. Ian Slatter, the college's press officer, used to work for the *Weekly Standard*, a conservative magazine. Mr Bonicelli displays a *National Review* cover showing John Ashcroft with devil's horns under the slogan “Every liberal's favorite devil”, with the picture signed by the Devil himself. Mr Ashcroft's wife is on Patrick Henry's board of trustees.

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Lexington

The power and the Passion

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The storm caused by Mel Gibson's film is yet another indicator of America's moral and cultural divide

IN THE wake of Bill Clinton's election in 1992, Irving Kristol, the godfather of neo-conservatism, proclaimed that “the culture wars are over—and our side lost.” Now, with the crucifixion of Christ vying with homosexual marriage for the nation's attention, it is clear that the godfather was wrong. The culture wars are raging as savagely as ever—and the conservative side, if not triumphant, is more than holding its own.

The latest conservative champion is a semi-Australian actor who first captured public attention as Mad Max, a “road warrior” struggling to survive in a post-apocalyptic world. Now Mel Gibson hangs out in very different circles. “The Passion of the Christ”, his film about the last day of the life of Jesus, is galvanising religious America as no film has for decades. It opened on 2,800 screens on February 25th, Ash Wednesday—a remarkable achievement for a work that eschews both Hollywood stars and the English language. Christian congregations have pre-booked whole cinemas. The Cinemark theatre near Dallas started showing the film at midnight on Tuesday and kept it going for 24 hours. At 6am the cinema started showing it on all 20 screens.

Yet “The Passion” has also galvanised non-Christian America. It has provoked accusations of anti-Semitism for months past, but the criticism goes well beyond that. The *New Yorker*'s review is illustrated with a cartoon of Mr Gibson on a cross being doused in buckets of blood. Andy Rooney, a TV commentator, has accused Mr Gibson of being a “wacko” and “a real nutcase” who is exploiting Christ's crucifixion for monetary gain.

Is such comment worth noticing, or is it just the usual “buzz” that Hollywood types are so talented at manufacturing? Mr Gibson has certainly been skilful in marketing his film, in which he invested $25m-30m of his own money, and in turning the row about anti-Semitism to his own advantage. His marketing machine is selling a host of tie-ins, including a book, lapel pins, key-chains, coffee mugs and T-shirts. The latest fashion item is two-and-a-half-inch nails like the ones used to nail Jesus to the cross.

Yet, for once, there are good reasons for paying attention. “The Passion” is as good as it gets when it comes to religious films: a blood-drenched depiction of Christ's last hours that manages to be both riveting and profound at the same time. Mr Gibson's two bravest decisions—to use no stars and to make his actors speak in Aramaic and Latin—turn out to be strokes of genius. The film has a remarkable feeling of authenticity.

Yet “The Passion” is also disturbing. Mr Gibson tells us little about Jesus the healer or Jesus the soother of worldly cares. Instead, he focuses relentlessly on the physical details of martyrdom—on bloody flagellation and agonising crucifixion. Within 15 minutes of the film's opening Jesus's right eye is swollen shut. The welts on his body are shown in gruesome detail. The Roman soldier who is ordered to make sure that he is dead is showered in blood.

The charges of anti-Semitism have certainly been overdone. The most sadistic characters in the film are the Roman soldiers, and the most sympathetic are the Jewish bystanders who come to Jesus's aid. The hand that drives the first nail into Jesus is Mel Gibson's own. But, that said, it is hard to watch “The Passion” without a certain sense of unease, given the film's raw power and the resurgence of anti-Semitism around the world.

A clash of paranoias

“The Passion” will also remain controversial because Mr Gibson has chosen to plant his crucifix at one of the contentious crossroads of American life. America is one of the most religious countries in the industrialised world. Over 80% of Americans claim to believe in God, compared with 62% of the French and 52% of Swedes. About two-thirds of Americans claim membership of a church, 40% go to church once a week, and 43% describe themselves as born-again Christians. Three times as many people believe in the Virgin birth as in evolution.

Religious groups are also exercising a growing influence on America's political and cultural life. The so-called religious right has established a lock on the Republican Party. Religious gurus and groups are getting ever slicker at marketing their wares. Rick Warren's “The Purpose-Driven Life”, which has sold more than 11m copies, is being used to launch a flotilla of products from devotional volumes to scripture cards. One company produces a magazine-like version of the New Testament that intersperses the scriptures with articles on “Beauty secrets that you never heard before” (use the time you spend applying sunscreen to talk to God) and “Are you dating a Godly guy?”

But America is also one of the most secular countries in the world. The constitution guarantees a rigorous separation of church and state, and secular groups are assiduous in using the courts to enforce that separation. (On February 25th, the Supreme Court ruled that states could withhold scholarships from students studying divinity.) Public schools recoil from even the mildest religious imagery. More than 29m Americans say that they have “no religion”, a number that exceeds all but two religious denominations, Roman Catholics and Baptists. For the most part, the people who run America's media industries in New York and Hollywood are aggressively secular, combining intellectual hostility to Middle America's religious fundamentalists with a generous measure of cultural disdain.

Liberal intellectuals have long accused the religious right of demonstrating a “paranoid style”, claiming that it is motivated by a belief that the country is in the hands of a secular cabal. Now the paranoids may well be the secularists themselves, horrified by the new conservative grip on the culture. The clash between these twin “paranoid styles” is hardly a pretty one, as demonstrated in the row over Mel Gibson. But it could help to shape American politics for many years to come.

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Haiti

A coup unfolds

Feb 26th 2004 | CAP-HAÏTIEN AND PORT-AU-PRINCE
From The Economist print edition

Reuters

President Aristide is losing his country. But who controls the rebels, and will they avoid a bloodbath?

Get article background

“WE HAVE seen quite a few revolutions, but this is the weirdest one,” said Walter Bussenius, a retired hotelier in Cap-Haïtien, as he watched rebel soldiers storm Haiti's second city on February 21st. What began earlier this month as an episode of gang warfare has turned into a coup in slow motion. It is being carried out by an improvised but increasingly professional rebel army, now numbering perhaps 500 troops, whose latest name is the National Resistance Front for the Liberation of Haiti. This week, the Front sealed its grip on northern Haiti. In Port-au-Prince, the capital, residents anxiously awaited the rebels' arrival.

There they may face tougher opposition. Jean-Bertrand Aristide, the beleaguered president, still enjoys some sympathy in the capital's shantytowns. He has the backing of his notorious *chimères* (named for a fire-spouting monster of Greek myth), the gangs of angry young shanty dwellers who are his enforcers and shock troops. They were manning barricades on the roads leading into Port-au-Prince, and around St Marc—the front line between Haiti's warring factions.

The capital's streets were becoming more dangerous by the day. At many intersections, young toughs demanded money to allow vehicles to pass and threatened passengers. After gangs began blocking roads from the airport, airlines cancelled some international flights even as many foreigners were ordered to evacuate. By midweek, the capital was isolated from much of the rest of the country.

The last three weeks have shown that Haiti's 5,000-strong police have neither the weapons nor the stomach to defend their president. Will the *chimères* live up to their name? Guy Philippe, who claims to be the rebels' senior commander, says that the ferocity of the *chimères* is itself a myth. Shortly before the assault on Cap-Haïtien by the lead wave of 70 rebels, the feared *chimère* leaders in the town hijacked a small plane at gunpoint and fled.

Mr Philippe, a handsome young former police chief at Cap-Haïtien, claims that the attack on Port-au-Prince is imminent. “February will be the month of liberation,” he said. But there was some bravado in this talk. Mr Philippe's men were still busy patrolling the streets of Cap-Haïtien and drilling 150 new

recruits. He admitted that he could do with some more guns too.

Even so, time for diplomacy was running out fast. Mr Aristide had accepted a peace plan put forward by American diplomats, and backed by France, Canada and the Caribbean states. This involved him staying until the end of his term in 2006, but sharing power with the opposition. On February 24th, opposition leaders rejected the plan. Only Mr Aristide's departure will “remove the fuel from the engine of violence,” said Andy Apaid, an opposition leader.

Outsiders seemed unwilling to use force to prop up Mr Aristide. Colin Powell, the American secretary of state, had said that the president should stay in office; the United States sent 50 marines to protect its embassy. But on February 25th, George Bush said that an international “security presence” might be needed only after a political settlement was reached.

France was keener on intervention. But in a veiled call for Mr Aristide to step down, Dominique de Villepin, the foreign minister, said that “everyone can see it is the time to open a new chapter in the history of Haiti.” France proposed an international police force to restore order, and aid to prepare for a presidential election under a government of national unity.

Perhaps the biggest problem is who speaks for the opposition, and what its agenda is. “The only thing they have in common is antipathy to Aristide,” says Robert Maguire, a Haiti specialist at Trinity College in Washington, DC. The Group of 184, a loose collection of opposition civic groups, insists that it does not support the armed rebels. But its reluctance to accept the peace deal suggests that it fears being outflanked by them.

Mr Philippe is uncompromising. Talking in a relaxed mood over dinner in Cap-Haïtien a few hours after his men had secured the city, he called his objective of overthrowing Mr Aristide “a noble cause”. He rejects any diplomacy that would allow the president to remain until 2006. “Democracy isn't just about respecting five-year terms,” he said. “It's also about respect for the principles and rules of democracy. Aristide has violated them all.”

But many of the rebels have even weaker democratic credentials. One of them, Louis Jodel Chamblain, ran a death squad under Haiti's 1991-94 military dictatorship. In 1995, he was sentenced to life imprisonment in absentia for the murder of a prominent businessman. Another, known as Jean Tatoune, was sentenced to life in 2000 for his part in the massacre of 15 people six years earlier. Many others among the Front's leaders are former officers in the army, the mainstay of the notorious Duvalier family dictatorship of 1957-86.

Mr Philippe says he is less interested in his colleagues' past than their fighting capabilities. “I really don't know Chamblain's story, and I really don't care,” he said. “He is under my command.” Mr Philippe himself was training at Ecuador's police academy during the last dictatorship. After opposition claims that Mr Aristide's Lavalas (“cleansing flood”) party rigged a legislative election in 2000, Mr Philippe and ten fellow police commanders were accused by the government of plotting a coup, and fled the country. He says they fell out of favour because they denounced the electoral fraud.

In 2001, Mr Philippe was accused of being behind a mysterious attack by two dozen men on the presidential palace. Government officials have also linked him to drug trafficking. Mr Philippe's ostentatious lifestyle aroused suspicions. But there is no proof. “It's all bullshit,” retorts Mr Philippe. “For three years I was in different countries. Why wasn't I arrested by Interpol if I was that bad?”

Lawless hoodlums

Human-rights groups fear a bloodbath of score-settling if the rebels win. So far, surprisingly little of that has happened. Although some Aristide loyalists have been rounded up, the rebels say they will not be hurt. The rebels' military background did not seem to worry thousands of residents in Cap-Haïtien who turned out to greet the conquering army. Some said that anything was better than the lawless Lavalas hoodlums who had run roughshod over the local police. “They are professionals and they know how to treat people,” said Jean Robert, an unemployed boat captain.

Reuters

Mr Philippe says his hero is Napoleon Bonaparte, but insists he harbours no political ambitions. If Mr Aristide falls, power would pass to the head of the Supreme Court, as the constitution requires. But real power is flowing steadily towards the Front and, perhaps, its

financial backers. Who are they? Possible drug connections apart, the best guess is that the rebels' money is coming from the large Haitian diaspora in the United States and Canada.

Mr Aristide forlornly warned the United States this week that Haitian refugees might try to set sail for Florida. So far, only a few have done so. But if Haiti does descend into a bloodbath, triggering a mass exodus, it would not be the first time that it has intruded on an American presidential election campaign. Nor would it be especially surprising.

Discontent in Haiti has been building steadily. Many argue that power has turned Mr Aristide, once a priest of Franciscan poverty, into just another Haitian despot. His biggest mistake may have been to rig the 2000 election. That reinforced the suspicions of many lower-level officials in the Bush administration that Mr Aristide was a populist would-be dictator. The United States responded with an aid cut-off which cost a dirt-poor country $500m. The Republican Party gave much help to the democratic opposition.

Philippe, the bashful Bonaparte

Intended or not, the rebels have taken that as a green light. “The rebels think that Washington is backing them up. That's in their heads,” says Jacques Despinosse, a leader of the 600,000 strong Haitian community in Florida. The United States insists that this is not so. But its stance towards maintaining Mr Aristide's government has been ambivalent.

Not for the first time, the Bush administration was this week defending itself from charges by its opponents that it has been taken by surprise by an upheaval in Latin America, and one that is partly of its own making. Such charges contain a degree of exaggeration. But as so often before, nobody is emerging from Haiti's turbulent affairs with any credit.

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Venezuela

Kafka in Caracas

Feb 26th 2004 | CARACAS
From The Economist print edition

Chávez frustrates the petitioners

Get article background

TIME was when Latin American rulers would lose an election but still manage to win it during the vote count. But it is a novelty for a vote to be stolen before it has even been scheduled. According to Venezuela's opposition, that is just what the country's increasingly authoritarian president, Hugo Chávez, is trying to do with a recall referendum which—if it ever happens—could bring his populist government to an abrupt end.

Ironically, Mr Chávez was once a great enthusiast for the idea of recall referendums, an innovation in a new constitution he sponsored in 1999. No longer. The electoral council (CNE) was slow to issue rules for referendums, so two previous opposition attempts were ruled invalid. Last year, the CNE finally drew up guidelines; these have been followed by the Democratic Co-ordinator, the opposition umbrella group.

On four days late last year, the Co-ordinator gathered over 3m signatures calling for the plebiscite. The CNE's rules were so strict that, for example, petition forms were printed on bank security paper to avoid fraud. The signature-gathering went smoothly, witnessed by officials from the government, the opposition and the CNE.

But on day three, when it became clear that the number of signatures would easily exceed the 2.4m (20% of the electorate) required, Mr Chávez denounced the exercise as a “mega-fraud”. If the CNE called the referendum, he would not recognise it.

But the president then backtracked, saying he would respect the council's decision and calling on the opposition to do the same. Why? Perhaps because the CNE's board, three of whose five members appear to support the government, is itself throwing up obstacles. It is already a month late in ruling on whether a referendum should take place. And it has been making up new rules as it goes along.

On February 24th, the CNE ruled that signatures will be annulled if the accompanying personal details were penned by another hand (eg, if they were taken down by the referendum organisers)—unless the signatories individually confirm during a five-day period that they really did sign. That should be enough to abort the referendum.

The Organisation of American States (OAS), which has observed the process, is said to have discussed pulling out if what it has called “excessive technicalities” take precedence over the will of the electorate. It is no mere onlooker. Together with the Carter Centre, headed by Jimmy Carter, a former American president, it did much to persuade the opposition to take the referendum route (despite its fears that Mr Chávez would bend the rules). Both are guarantors of a deal struck in May 2003 in which government and opposition agreed to abide by the constitution. “No tricks!”, warned Mr Carter at the time.

Absent a referendum, many would argue that Mr Chávez was no longer ruling as a democrat. Venezuela would risk expulsion from the OAS for violating its Democratic Charter. That decision might be closely fought. Mr Chávez would hope for many votes from the small states of the English-speaking Caribbean, to whom he supplies cheap oil. He recently visited neighbouring Guyana, where he downplayed Venezuela's claim to that country's Essequibo territory. A sudden about-turn aimed at forestalling diplomatic isolation, said opponents. But if forced to choose between isolation and power, Mr Chávez might prefer to walk alone.

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Peru's lawless drivers

Street heroines

Feb 26th 2004 | LIMA
From The Economist print edition

A small battle for the rule of law

THERE are few more hazardous jobs in Peru's capital than that of a traffic policewoman. In January, there were 32 cases of physical injury or verbal abuse of police officers in Lima: in all but five cases, the victims were female traffic cops. Two of these cases have attracted headlines. One involved Miguel Angel Mufarech, the president of the regional government for the area around Lima; he is alleged to have roughed up a policewoman who gave him a ticket. Another involves an unidentified American diplomat.

Some see this as a feminist issue. Ana María Romero, the minister for women, is drawing up a bill to raise the penalties for attacks on policewomen. Mr Mufarech was applauded for his *machismo* at a party meeting. But it is also an example of how difficult Peru finds it to establish the rule of law even in minor matters. Policewomen are a target because “they refuse to accept bribes, which bothers people accustomed to paying when they break the law,” according to Ms Romero. Because they are seen as less corrupt than their male colleagues, 75% of traffic cops in Lima are now female.

They are up against the lethal road chaos of a city of 8m people that lacks a mass-transit system and where government has little control over public transport. All buses are privately owned; most are old (a third or more over 20 years old); a fifth are unregistered “pirate” vehicles, according to the police. Much of the fleet consists of minibuses, some imported second-hand from Japan. Many of their drivers are would-be kamikazes. Thanks, in part, to them, in 2002 Lima averaged 42 traffic deaths per 100,000 vehicles; the figure for Santiago, Chile's capital, was just ten.

The minibuses have become a symbol of a vast informal economy—and of a culture of “informality” or lawlessness that extends to much of life in Peru. Lima's mayor, Luis Castañeda, hopes to make the city safer with a $45m loan from the Inter-American Development Bank for new roads. Sensible regulation is also needed, but is harder. Last month, bus owner-drivers called a one-day strike to demand, among other things, that the government annul $18.5m they owe in unpaid traffic fines and rescind a recent order allowing all police, not just traffic cops, to issue tickets. Peruvians should hope that the government stands firm—and give thanks for their long-suffering policewomen.

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Colombia

A dying cause?

Feb 26th 2004 | BOGOTÁ
From The Economist print edition

A power struggle looms for the FARC guerrillas

Get article background

AFP

Marulanda never changed

AS A guerrilla leader, Manuel Marulanda (alias *Tirofijo* or Sureshot) has seen a dozen Colombian presidents come and go. Initially a fighter in a Liberal militia, in 1964 he founded the FARC, the country's largest guerrilla army. He has survived 16 false reports of his killing by the army, according to his biographer. Now it seems that illness may be finally about to claim Mr Marulanda, at 73.

Patricia Lara, a Colombian journalist with good guerrilla contacts, reported last week that Mr Marulanda has prostate cancer, and is likely to die within six months, and perhaps sooner. One of her sources claimed that he is at present in a hospital in Brazil.

If true, that would be a big and perhaps fatal setback for the FARC, which now has perhaps 15,000 fighters. From its origins as a peasant militia, the FARC evolved into a Stalinist army before coming to rely more recently on drugs, kidnapping and extortion to sustain its war. In that period, Colombia has changed from an inward-looking country ruled by an oligarchical elite into an increasingly dynamic and urbanised democracy. Mr Marulanda knew little of that; he is said never to have visited any of Colombia's main cities.

Instead, he kept alive the FARC's myths of itself and its fight for the benefit of new recruits, many of them now young enough to be his great-grandchildren. His death would come as the FARC has forfeited nearly all of its (never great) popular support in Colombia, and is losing ground militarily to President Álvaro Uribe's determined security policy.

If Mr Marulanda is indeed dying, that is certain to have unleashed a power struggle between Jorge Briceño, the FARC's military commander, and Alfonso Cano, its political ideologue. On its outcome would turn whether or not the FARC might seek new peace talks—or begin to splinter. Mr Cano replaced Jacobo Arenas, Mr Marulanda's closest companion, who died in 1990 of a heart attack. For all the army's efforts, the FARC's most senior leaders tend to die in their beds.

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Correction: Jean-Bertrand Aristide

Feb 26th 2004

A fortnight ago (see article) we said that Haiti's president, Jean-Bertrand Aristide, was a former Jesuit priest. He was in fact a Salesian.

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East Asian trade

Everybody's doing it

Feb 26th 2004 | SEOUL AND TOKYO
From The Economist print edition

Reuters

Why Asian countries are racing to sign bilateral trade deals with each other

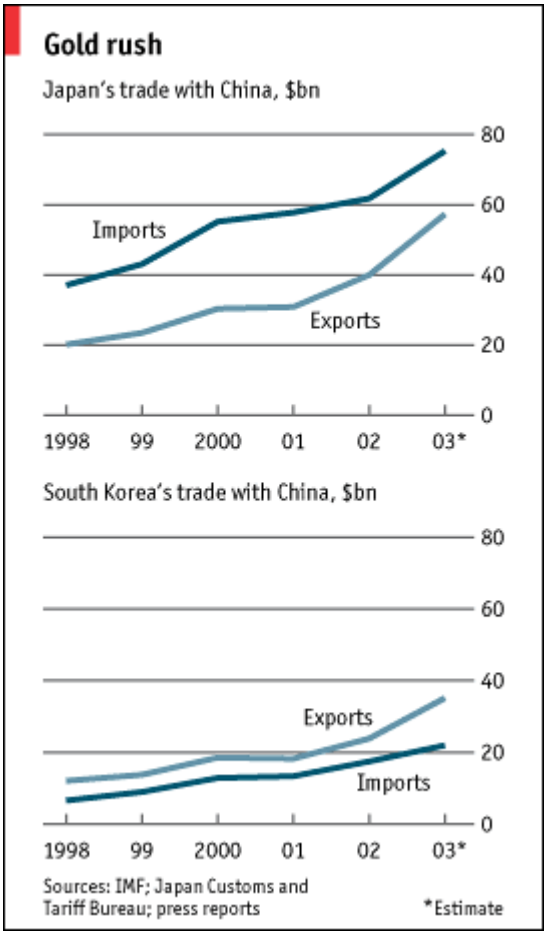
WITH everyone but Mongolia and North Korea doing it, even South Korea's protectionists could not resist any longer. After three failed attempts, the National Assembly finally ratified the country's first-ever free-trade agreement (FTA) last week. Since such agreements are becoming commonplace, and since South Korea chose a modest and distant trading partner, Chile, for its first foray into tariff-free trade, it would be easy to dismiss the treaty's importance to the rest of Asia. Yet it may signal the start of a more aggressive phase in the region's trade policy.

Most of Asia's recent trade deals have been tame agreements, knocking down barriers between countries with little to lose, but also little to gain, from freeing two-way trade in most sectors. Rich and tiny Singapore has been a popular partner for such deals, because it does not threaten the powerful farm lobbies of other countries. Long a member of the ten-nation Association of South-East Asian Nations (ASEAN), Singapore has signed bilateral agreements in the past two years with Japan, Australia and America, and is talking to South Korea, India, Canada and Mexico about other FTAs.

However, what might be called the Singapore phase of Asian trade talks may now be giving way to something more substantial. The proliferation of simple FTAs is pushing many Asian countries to make bigger “concessions” in a race to secure better access to nearby economies. That even a perennial hold-out such as South Korea now shares some of this urgency is telling. Violent protests had delayed passage of its FTA with Chile for over a year. South Korea's government hopes the deal will pave the way for more valuable agreements with its two giant neighbours, China and Japan. A similar sense of desperation has been gripping Japan's trade bureaucrats, who have launched their own bid to speed up FTA talks.

Last week, with Junichiro Koizumi, Japan's prime minister, urging it on, the Ministry of Economy, Trade and Industry (METI) more than doubled the size of its core FTA team. The extra manpower will aid negotiations with Korea, Mexico and several ASEAN economies. It will also make it easier for METI to resist opposition from the rival farm and labour ministries, and to make the case for freer trade directly to Japanese journalists.

Like South Korea, Japan is making a trial run with a non-Asian country, in its case Mexico. Here, it ought to be able to win domestic support for an FTA. Japanese businessmen, especially in the car and steel industries, want tariff-free access to a country in which they can assemble products cheaply for export to America. Still, a previous round of talks with Mexico, over farm products, collapsed late last year, even though imports of the two most contentious products, orange juice and pork, matter little to Japan's total farm sector. The country's farm lobbies fear that if they give a little, pressure will mount to allow freer imports of rice and other cherished products from countries such as Thailand and the Philippines.



Why are Japan, South Korea and many other Asian countries pressing for more and meatier FTAs? The most obvious reasons are China's growing economic weight and its willingness to throw it around. In 2002, China's total trade volume with Japan, South Korea, India and the ten ASEAN members topped $200 billion, more than a 20% increase over 2001. Its trade growth appears to have accelerated in 2003: early last year, China's trade with Japan was rising at an annual rate of 36%, and with South-East Asia by 49%.

China's own appetite for trade deals has grown along with its economy. This has been fuelled partly by its frenetic quest for markets, materials and machinery. Chinese companies are especially keen on Australia, since their economy is chronically short of commodities—crude oil, copper, aluminium, iron ore and natural gas—to fuel its breakneck expansion. The two countries will begin talks on an FTA in March. Since joining the WTO in 2001, China has also grown more sanguine about the potential risks of trade deals. Cheap imports have caused less disruption than many had expected, and even the country's farming sector has not been hit as badly as feared.

Geopolitics is also driving China into trade talks. Its desire to appear a responsible regional power, and to integrate itself economically with the formerly wary countries of ASEAN in a way that gives them obvious advantages, is a powerful driver of its regional trade strategy. It also hopes for the emergence of an Asian economic block that might negotiate more effectively with America and the EU. If China can overtake Japan along the way, and become Asia's paramount economic voice, so much the better.

ASEAN countries have taken even greater notice of China's ability to suck in foreign direct investment. If they are to have any hope of luring foreign businessmen these days, these countries need to trumpet their growing economic ties with Asia's next giant. Some are also seeking greater ties with the established one, Japan. The Philippines, for instance, wants to send nurses to Japan, which needs cheaper care for its elderly.

In North-East Asia, the trading motives are different. Although South Korea hopes to cut FTAs with both China and Japan, its two big neighbours still watch one another warily. Japanese companies have been pouring investment into China over the past couple of years, and Japan owes much of its recent economic recovery to trade with its fast-growing neighbour. Notably, however, the trade pairing with the most obvious potential impact—a Sino-Japanese FTA—is not even on the table. China has launched a trade offensive to boost its growth and increase its regional influence; Japan is responding by pressing for its own deals with anyone in the region who seems game. Yet Asia's two economic giants are still too distrustful of one another to sit and discuss an FTA. So far.

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North Korea

Here we go again

Feb 26th 2004 | BEIJING AND PYONGYANG
From The Economist print edition

A new round of talks on North Korea's nuclear secrets opens in Beijing

Get article background

IF NOTHING else, six-nation talks this week in Beijing aimed at defusing tensions over North Korea's nuclear programme have been a breath of fresh air for China. Abandoning its preference for secretiveness, China turned them into a huge media event, with live television coverage of the opening remarks and a press centre for hundreds of visiting journalists.

This might help China's bid to be recognised as an important global player. But prospects for an early resolution of the nuclear crisis appear nearly as doubtful as they were when China, North Korea, the United States, South Korea, Japan and Russia held their first (and only other) round of negotiations on the issue in Beijing six months ago. As *The Economist* went to press on February 26th, the delegates were engaged in a second day of discussions. At best, the hope was that a third day of the round might produce a written agreement on procedures for further, more frequent, talks and a broad statement of goals. As with any issue involving North Korea, there was always a chance for surprises.

As the talks started, the North Koreans were their usual chest-thumping selves. A senior foreign ministry official in Pyongyang, Thae Yong Ho, said there was “no alternative but to equip and strengthen ourselves to survive with a nuclear deterrent force.” He saw no sign of change in the “hostile policy” of America, although North Korea was ready to negotiate.

But about what? The talks are the product of a dispute that began in October 2002 when America said that North Korea had admitted to a uranium-enrichment programme. North Korea subsequently denied this and insists on discussing only its well-known plutonium facilities. The confession by Pakistan's top nuclear scientist, Abdul Qadeer Khan, that he had sold uranium enrichment secrets to North Korea has not changed its stance.

America's chief negotiator at the Beijing talks, James Kelly, said again in his opening remarks that the United States sought the “complete, verifiable and irreversible dismantlement” of both programmes. Mr Kelly and his North Korean counterpart Kim Kye Gwan held rare one-on-one talks during a break in the formal discussions, but there was no word of any progress.

A possible way forward has been proposed by South Korea. It would involve a three-stage approach, beginning with a commitment by North Korea to dismantle its nuclear facilities and by other countries including America to provide a security guarantee. This would be followed by the freezing of the nuclear programmes, verified by monitors, and the provision of aid. Finally, with the scrapping of the facilities, North Korea would get a firm security assurance. The plan apparently has the blessing of the Americans (who might not have wanted to push it themselves for fear of being accused of compromising) and could have its attractions to an impoverished North Korea. If only all could agree what the facilities in question are.

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Afghanistan

Registering doubts

Feb 26th 2004 | KABUL
From The Economist print edition

Can the elections be held on time?

Get article background

OUTSIDE a scruffy Kabul high school this week, a solemn crowd formed two tidy queues to register for Afghanistan's first elections since a black cloud of war, civil war and famine descended on the country a quarter of a century ago. Not that everyone knew it. Several men were unsure what they were waiting for, but thought there might be a bag of rice in it. In the second, much shorter, queue, every woman said she was registering because her husband had told her to.

Whether Afghans know it or not, elections they will have, and earlier than planned. The UN began registering voters three months ago, expecting presidential and parliamentary elections in September. That plan was upset last month, when President Hamid Karzai announced that the polls would be held in June, as Afghanistan's new constitution recommends they should be, if possible.

Even before Mr Karzai's decree, the UN was encountering certain difficulties. Southern Afghanistan has been virtually off-limits to its staff since the murder of a UN worker by neo-Taliban guerrillas in November. The UN is also barred from using the region's schools as registration and polling stations, for fear that schoolchildren could be caught in Taliban attacks. Cash is a further problem, with a shortfall of $25m in funding for voter registration. An attack on January 25th killed five Afghan aid workers, prompting more security fears.

Despite these troubles, Mr Karzai had firm reasons to bring the elections forward. An honourable man, he is doubtless itching for the legitimacy that a probable electoral victory will confer on him. He is also doing his main sponsor's bidding. With an election of his own due in November, George Bush needs to show America's voters a cheerier image of his foreign policy than is available in Iraq.

But the UN's plan now looks unfeasible. Just over 1m voters—or about half the target for the eight cities where registration has begun—have so far been registered. According to the UN's latest schedule, it must register the remaining townspeople by April 7th. As for the outstanding 8.5m voters needed to make up the target of 10.5m, including many who live in some of the world's wildest places, they are to be registered in three weeks in May, by an army of 35,000 Afghan registration officials. These have yet to be recruited.

Given Mr Bush's influence, UN officials expect a presidential election in June nonetheless. If even half of those eligible to vote are registered by then, it could be considered a triumph. But even if a presidential election is to be held in June, parliamentary elections almost certainly cannot be. A draft electoral law, determining what system, proportional representation or otherwise, will be employed, and delimiting constituencies, has not yet been finalised. No parties have been registered.

UN officials fear that a proper parliamentary poll cannot be held before the snows seal off much of the country in October. Assuming a presidential election is held in June, and that Mr Karzai wins, he could be obliged to rule by decree for almost a year. Mr Bush probably wouldn't mind that. Nor would Mr Karzai.

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New Zealand

Uneasy partners

Feb 26th 2004 | WELLINGTON
From The Economist print edition

Not so boring after all

Get article background

THE Labour-led government of New Zealand, which until recently seemed to be coasting effortlessly towards a third term, has been shocked out of its complacency. Don Brash—a 62-year-old former central-bank governor once nicknamed after the anti-anxiety drug Mogadon—surprised everybody when he switched to politics a few years ago. But the boring banker did not stop there. Now leader of the opposition National Party, he is turning the opinion polls upside down. His party, which only in December trailed 17 percentage points behind Labour, is now leading the polls 45% to 38%.

Mr Brash's simple line is that the Maori, who make up 15% of the population, are being granted too many privileges. “We are one country with many peoples, not simply a society of Pakeha and Maori, where the minority has a birthright to the upper hand, as the Labour government seems to believe,” he says. The opposition leader says he wants to build a society based on the notion of one rule for all, rather than a racially divided nation. He is critical of policies in education and health care—where government funding is influenced not just by need, but by ethnicity—and of other special treatment, such as Maoris' rights over land they do not own.

Maori leaders, not surprisingly, have condemned this line, which appeared to be undermined when the sole Maori member of his party's parliamentary caucus, Georgina Te Heuheu, refused to back his stance. For her pains, she was then sacked from her post as shadow minister of Maori affairs.

The government's instinctive response was to brand his plea as racist. But ministers reversed themselves when it became clear that Mr Brash's message had a powerful political resonance across party lines. New Zealanders, as the latest opinion poll shows, are unhappy with the interpretation that the Treaty of Waitangi—under which Maori chiefs ceded sovereignty to the British in 1840—created a “partnership” between Maori and other New Zealanders and gave the Maori special privileges, a position assiduously cultivated by the government led by Helen Clark.

As a result, what had been a bipartisan approach to Maori policy has now been demolished. In addition, Labour is being pilloried for becoming disconnected from voters. The government, which has invested so much political capital in the “partnership” model, could find itself in no-man's land if New Zealand's voters confirm the Brash diagnosis at the next election.

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The Philippines

Al-Qaeda and the separatists

Feb 26th 2004
From The Economist print edition

Peace talks get the go-ahead

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TO MUCH hoopla, the Philippines government and the biggest Muslim rebel group in the country announced, on February 21st, that they will start formal peace talks in April. The hope is for an end to a three-decade-old campaign for independence by the Moro Islamic Liberation Front (MILF), militant members of the Muslim minority in the south of what is a predominantly Christian country. If an end comes, the reason may be that neither side wants a war of secession to become another front in America's war on terror.

Malaysia is brokering the talks and has promised to arrange for international observers to monitor a ceasefire that started last year. But the United States is doing its bit too. It has promised to provide money for the development of Muslim areas of the southern part of Mindanao if an agreement is reached. Should the negotiations fail, the Americans have hinted, they will declare the MILF a terrorist organisation. They are meanwhile spending tens of millions of dollars on improving the ability of the Philippines' armed forces to fight terrorists. The Philippine government wants peace so that Mindanao can fulfil its agricultural and mineral promise. Above all, though, both the Philippine and American governments want to prevent al-Qaeda and its South-East Asian component, Jemaah Islamiah (JI) from exploiting further conflict on Mindanao.

The government estimates that the MILF has some 12,000 armed members—many of them potential recruits for JI or the Abu Sayyaf, a purely Filipino group also linked with al-Qaeda. The MILF's aim is the creation of an independent Islamic state in Mindanao. But it appears to accept that autonomy is the most it can hope for. It is also moderate in its interpretation of Islam. Its leaders have publicly renounced terrorism, and denied any connection with international terrorist groups.

The government is sceptical. It insisted that there would be no peace talks unless the MILF showed by word and deed that it is not a terrorist group. The MILF, for its part, insisted that there would be no negotiations unless the government dropped criminal charges against about 100 of its leading members indirectly implicated in two deadly bombings in Mindanao last year. Both have now given ground.

Even a peace agreement will be unlikely to mean the end of al-Qaeda in Mindanao. However anxious the leaders of the MILF to show that they are not terrorists, their followers may well think differently; the organisation is more a confederation of armed bands than a cohesive army. A peace that resulted in the group's fragmentation might not be unwelcome to the JI and the Abu Sayyaf. They might then scoop up its members.

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Myanmar

Among the ruins

Feb 26th 2004 | PAGAN
From The Economist print edition

The military junta is wrecking its nation's heritage

Get article background

IN THE paintings that hawkers sell in Pagan, Myanmar's medieval capital, the ruins look exactly as tourists might expect: romantic, tumble-down temples dot the dusty plain, a fallen stupa here, a buckling wall there, the occasional plant sprouting from a lofty crevice. But when visitors look up, they see nothing of the sort. Almost all the city's 2,000-odd temples have been fancifully reconstructed, with bright red modern bricks and identical cement finials. In some cases, the authorities have built soaring new temples on top of crumbling ancient foundations. In others, they have taken the remains of an original spire and built a new structure to hold it up. This ham-fisted restoration, says one foreign academic, “verges on Disneyfication”. And the same thing is happening at all the country's best-known historical sites.

It was not always thus. In the 1980s, Burma (as Myanmar was then named) and the United Nations Educational, Scientific and Cultural Organisation mounted a joint restoration project in Pagan to repair damage done by an earthquake in 1975. But Myanmar and UNESCO parted company in the 1990s after the country's military rulers began soliciting donations for full reconstructions. UNESCO believes that wholesale rebuilding should only be attempted on the basis of detailed and precise information about how the structures concerned originally looked, and with original materials if possible. In the case of Pagan, says Pierre Pichard, an archaeologist who has conducted an exhaustive survey of the ruins, neither is available.

Undaunted, the junta has devised several schemes to spruce up the ruins, all of which damage the site. A big new road ploughs through the densest cluster of temples, while a 60-metre (200-foot) viewing platform is under construction nearby. Khin Nyunt, the prime minister, paid for the remodelling of the huge Dhammayanzika Pagoda out of his own pocket—though not, presumably, with his official salary.

Similar abuses are under way at Myanmar's other big tourist sites. A 19th-century teak palace in Mandalay that burned down during the second world war has been rebuilt in concrete and aluminium. At least, Mr Pichard points out, the design was copied from surviving colonial-era surveys and photographs. The same cannot be said of the ruined 16th-century palace in Pegu, which the government is also resurrecting. Since the authorities have no idea what it originally looked like, they are simply copying the Mandalay palace, even though it was built 300 years later at the other end of the country, and by a different dynasty.

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Kazakhstan

Rise and fall

Feb 26th 2004 | ALMATY
From The Economist print edition

The declining fortunes of the opposition

Get article background

THE peaceful ousting last November of Georgia's long-time president, Edward Shevardnadze, is much admired among the radical opposition in Kazakhstan. A senior Georgian official, attending the inaugural congress on February 21st of the opposition party, Democratic Choice, in Almaty, the former Kazakhstani capital, received a standing ovation. But Georgia's “rose revolution” is unlikely to be repeated in Kazakhstan.

The rise and fall of Democratic Choice, which burst on to the political scene more than two years ago and rocked the establishment on its heels, is a pointer to the reason. Having started life as a protest movement, it turned itself last week into a full-fledged party. But this is a sign of its decline, rather than its strength, plus an indirect victory for Nursultan Nazarbaev, the country's authoritarian president.

Democratic Choice was created in November 2001 by senior government officials and leading bankers disgruntled over the increasing power of the president's son-in-law, Rakhat Aliev. The standing of the people involved and the financial resources at their disposal quickly made the movement a force to be reckoned with. The penniless traditional opposition—long-standing democrats, old-style communists and hard-up pensioners—clambered gratefully on to the bandwagon.

Two months later, however, the more moderate elements broke away to set up a political party, Ak Zhol. Democratic Choice soon experienced further problems, culminating in the sentencing of its two leaders to several years in jail, and, last November, its deregistration as a recognised organisation. Having decided to become a political party, Democratic Choice hopes to participate in elections this autumn. But whether it will be allowed to register remains to be seen. And if it is, that could be a problem for those of its supporters who already belong to other parties.

In any case, Democratic Choice has already been overshadowed by the less confrontational Ak Zhol, which focuses on economic reforms and appeals to the growing middle class. Its success is believed to have triggered the creation a few months ago of another party, Asar, headed by Mr Nazarbaev's daughter, Dariga. She has already declared that it will win half the seats in parliament.

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Iraq

So what's the latest, latest blueprint?

Feb 26th 2004 | BAGHDAD AND KARBALA
From The Economist print edition

The United Nations has blown a hole in the Americans' latest plan without exactly suggesting what to put in its place

IF THE Americans expected the United Nations to solve their problems, they will have to think again. Instead of proposing a plan of his own for Iraq's transition to democracy, the UN's secretary-general, Kofi Annan, has deferred judgment over who should govern Iraq when the Americans hand over sovereignty or when the Iraqis should go to the polls. It's your mess, he—in effect—told Paul Bremer, American proconsul in Iraq. You sort it out.

Having already changed plans twice, Mr Bremer is wary of preparing yet another blueprint that could become obsolete almost as soon as it is published. But the UN's fact-finding team, led by Lakhdar Brahimi, who spent a week in Iraq earlier this month, has just about skewered Mr Bremer's plans for “caucuses” to select a transitional national assembly that was supposed, in turn, to produce a provisional government to take over from the Americans by July 1st. By declaring the caucus idea unworkable, the UN has blown a hole in Mr Bremer's accord, signed on November 15th, with Iraq's American-appointed Governing Council.

Of the ten deadlines listed in that agreement, seven now seem unlikely to be met. But Mr Bremer is trying to stick to three key dates. He insists that an interim constitution, known as “the basic law”, should be agreed on by February 28th; that the American-run Coalition Provisional Authority (CPA) should formally cease to run Iraq by June 30th; and that sovereignty should be handed over to an Iraqi provisional government the next day. With so much of the November agreement in tatters, can Mr Bremer persuade his Governing Council appointees to honour the rest of the commitments, even if the timetable slips?

Over the past week, Mr Bremer has energetically lobbied its 25 members to agree to a single version of the basic law's multiple drafts before this week's deadline. Two issues have been especially tricky: the definition of Kurdish self-rule; and whether Islamic canon law should be “a” or “the” source of legislation—a matter, if unresolved, that could rupture relations between mosque and state.

Vowing to fend off the possibility of an Islamic theocracy, Mr Bremer went on the offensive, flying to the Shia Muslims' holy city of Karbala in an effort to break the ayatollahs' apparent veto power. He oversaw the replacement of the local council backed by the ayatollahs with a new one that includes women and tribal leaders, who are seen by the CPA as a secular counterweight. In response, the local representative

of Grand Ayatollah Ali Sistani, Iraq's most influential cleric, used the mosque loudspeakers to dub the new council “illegitimate” and told his flock to use next week's big pilgrimage of Ashoura to protest against the American appointments.

After getting death threats, many of the new councillors suspended their work. Mr Bremer had hoped that Kurdish leaders, who are vehemently secular, might back him against his religious opponents. But for reasons of political expediency they have stayed aloof. If the Arabs want to go fundamentalist, say the Kurds, all the more reason for their own secular laws to prevail in the north.

Moreover, seeing the Shias flex their muscles, the Kurds have responded in kind, demanding their own legal system, government, and national guard. For good measure, they also want a fixed share of Iraqi oil and a budget for a resettlement plan to restore a Kurdish majority in the oil-rich region just south of their autonomous zone. If Mr Bremer says no, they say, they will refuse to sign a basic law by the present deadline of February 28th.

Proconsul's pickle

Mr Bremer is hesitating. In the November agreement, the CPA is due to sign a “status of forces” agreement next month with the Governing Council, to regulate the presence of foreign troops in Iraq. The Americans had hoped to find a home for the forces they withdrew from Saudi Arabia last year. But already the council is baulking at the Americans' insistence on signing a document that would allow for an unlimited number of American troops in Iraq for an unlimited period and subject to American, not local, law. Fearful of yet more squabbles with the council, Mr Bremer cites American lawyers who now say that only a sovereign government, after the handover at the end of June, has the legal authority to sign such an agreement. So another date looks like slipping.

But the biggest question of all is what government will emerge on July 1st. The UN mission scotched plans for choosing a body by then, either by elections (not enough time) or “caucuses” (too unpopular). An election, it said, would take at least eight months from the moment the legal and institutional framework is agreed on. This week, in a helpful shift, Mr Sistani said he would accept such a delay if a direct election were held by the end of this year.

By default, Mr Bremer may have few options but to extend the life of the only national Iraqi show in town, the Governing Council. Many of its members have hoped for as much, even though the agreement they signed in November stipulated that “the transitional assembly will not be an expansion of the Governing Council”.

Since many of the council's members are likely to do badly in a direct election, they welcome a chance to use their patronage. They propose that each of the 25 members appoint ten members, so creating a 250-strong assembly, with each member representing around 100,000 Iraqis. The assembly could then vote for a leadership, though even that is open to dispute.

The Kurds want a three-man presidency comprised of a Kurd, a Shia Arab and a Sunni Arab; the Shias want a five-man presidency comprising three Shias, a Sunni Kurd and a Sunni Arab, to underscore their demographic ascendancy; and the Sunni Arabs have put forward a compromise four-man presidency consisting of two Shias, a Sunni Kurd and a Sunni Arab. Taking a leaf out of multi-sectarian Lebanon's parliamentary book, some suggest a Sunni president, a Shia prime minister and a Kurdish speaker.

It's hard to sell democracy

Do Iraqis care? Many would rather live in a less-than-democratic but prosperous and stable state, like Kuwait or Dubai, than suffer the tension of a delicate democratic balance demanded by Iraq's peculiar demography. Moreover, the Governing Council is hardly representative, since it has no members hailing from the large swathe of country along the Tigris valley north of Baghdad, the Sunni powerbase of Saddam Hussein. If the present Governing Council took real power, the insurgency in some of the unrepresented towns, such as Mosul, Tikrit, Ramadi and Kut, might get a lot nastier. Party and provincial militias, which already rule many of Iraq's streets, could take the law into their hands.

With the benefit of hindsight, Mr Bremer might have sold the idea of caucuses if he had managed to persuade the Shia clerics that he was an honest broker (a pity he didn't use the Arabic term “shuras”)

and if the Bush administration had sought the UN's help a lot sooner. The November plan did not mention that body.

So who will pick up the pieces? Mr Annan suggests that the UN could nudge Iraq towards a general election by the end of this year or very soon after. Perhaps the ayatollahs may view him as a more honest broker than Mr Bremer. But with the insurgency once more growing, trying to build a democracy in Iraq is looking like an even more daunting challenge.

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Iran's election

What next?

Feb 26th 2004 | TEHRAN
From The Economist print edition

A hollow victory for the conservatives

Get article background

THANKS to a general election on February 20th that was rigged in advance, Iran's parliament has fallen into the lap of religious conservatives who answer to the country's "supreme leader", Ayatollah Ali Khamenei. But it is getting harder to persuade Iranians—or anyone else, for that matter—that the once semi-democratic Islamic Republic is more than just another unpopular Middle East dictatorship.

Mr Khamenei says that the elections "obliterated" the notion, peddled in the United States, that his rule lacks popular legitimacy. Despite the disqualification, by a hardline supervisory body called the Council of Guardians, of 2,000-plus reform-minded candidates, some 50% of voters (compared with 67% last time round, in 2000) ignored the reformers' heavy hints that they should boycott the ballot. In big towns, turnout was far lower.

Mr Khamenei's friends, in the broadcasting monopoly and elsewhere, stacked the odds in the conservatives' favour. They would anyway have benefited from voter apathy. Since his election in 1997, President Muhammad Khatami has observed helplessly as conservative institutions have blocked his—and parliament's—efforts to make Iran more democratic. His failure before the poll to intervene decisively in favour of the banned deputies made him look feebler than ever.

All the same, Iranians may regret the passing of the outgoing parliament, with its majority of reformers. At least they had highlighted conservative abuses of power, pressed for the release of political prisoners, for enhanced women's rights and more freedom of speech. The Alliance of the Developers of Islamic Iran, a grouping of white-collar nonentities and former Revolutionary Guards now likely to guide the new chamber, will be less daring. Their leading lights promise a "less political" parliament favouring "rationality"—that is, a firmer adherence to Mr Khamenei's wishes—over the "tension-raising" of the previous lot.

The election's other casualties are parliament, which has been emasculated, and the presidency. But the main loser is the regime as a whole. The base that supports Mr Khamenei and his conservative establishment is getting thinner. That is partly because former revolutionary stalwarts are being declared beyond the pale. Consider, for example, the disqualification of Behzad Nabavi, once parliament's firebrand deputy-speaker, or the refusal of Ali Akbar Mohtashami, who founded the Lebanese militant group, Hizbullah, to stand in what he considered a flawed election. Other outcasts include heroes of the eight-year war with Iraq in the 1980s.

So Mr Khamenei has emerged with more power but less authority. Pragmatic conservatives want him to anoint Hassan Rohani, his representative on the Supreme National Security Council, as the establishment's candidate to succeed Mr Khatami, who steps down next year. Hardliners tend towards Ali Larijani, the state broadcasting boss. His achievements include airing the "confessions" of confused-looking political prisoners and beaming anti-American bile into Iraq.

Mr Khamenei probably favours pragmatism. It was he, last year, who deputed Mr Rohani to bow to international pressure and negotiate the opening of suspected nuclear installations to inspections by the International Atomic Energy Agency. But Mr Rohani's opponents at home will not be displeased if his credibility abroad, high until now, falls with the agency's latest aspersions that Iran has been cheating again.

Fearful of American efforts to have the matter referred to the UN Security Council, Iran's leaders have

agreed to a tightening of the restrictions, agreed to in November, on its uranium-enrichment programme. The hardliners will hate that small but notable concession, for it bears the imprint of Mr Rohani.

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Morocco's earthquake

Political reverberations?

Feb 26th 2004 | AL HOCEIMA
From The Economist print edition

An earthquake's aftermath

THE Moroccan government must hope that the quake this week that killed at least 565 people near Al Hoceima, on the north side of the Rif mountains, will not make the survivors more disaffected than they are already.

The history of the *Riffains*, as they call themselves, is as turbulent as the minor earth tremors that often jolt their land. They have twice been bombed into submission in living memory, first by Spanish colonial forces in the 1920s, then in 1958 by soldiers sent from Rabat, Morocco's capital, under the command of the then crown prince, who later became King Hassan. Many inhabitants are still wary of the central government. In the quake's aftermath, they were quick to complain of the slow reaction from “the Makhzen”.

This usually pejorative term, denoting the hidden power of the state, is applied to the central administration in the king's palaces far away. It still pops up often in everyday conversation, especially in the north, where people grumble that the message of political liberalisation trumpeted when the new king, Mohammed, came to the throne in 1999 has yet to filter down to local police and interior-ministry officials.

The quake will again cast light on what the central government can and should do to help so poor a region. In the Rif mountains and its western foothills, the area under cultivation with cannabis has probably doubled in the past decade, but very little of the €10 billion ($12.5 billion) it may earn in Europe trickles back to Morocco's peasant farmers. The state's own agency for developing the northern region says the answer is to spur the growth of new towns. In which case, *Riffains* must hope that anti-seismic building specifications in so vulnerable a zone will be better enforced.

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Nigeria expels The Economist

A reporter's tale

Feb 26th 2004
From The Economist print edition

And what it reveals about Nigerian officialdom

SINCE Nigeria stopped being a military dictatorship in 1999, its government has grown more gentle. The immigration officials who escorted your correspondent to the airport to be deported last week were quite charming. But it was still unpleasant to be thrown out of the country, prevented from doing one's job, separated from one's Nigerian husband, and so on. And baffling: last month, in Davos, the president of Nigeria, Olusegun Obasanjo, was heard expressing dismay that *The Economist* did not write more about his great country.

According to the information ministry, your correspondent was advised to leave because of her “flagrant disregard” for Nigeria's immigration laws. The rap sheet is confusing, but includes the allegation that she worked despite only holding a tourist visa (which is untrue), and the insinuation that she is not really a proper journalist (you decide). The trouble began after your correspondent refused to pay a rather excessive sum of money to an official in the information ministry. The information minister said last week he would consider a fresh application for press credentials, but that “a lot depends on whether she says something that would make it more difficult for her to come back, like accusing people of bribery.”

A foreign correspondent's woes are trivial, of course, when compared with the effect Nigeria's dysfunctional public administration has on ordinary Nigerians. The civil service absorbs most of the budget but delivers little in the way of services. Needless duplication breeds waste. Embezzlement is rife. And perhaps most dispiriting is a tendency among some bureaucrats to be pointlessly obstructive in the hope that someone will bribe them to lay off. A small example: a retired school teacher recently tried to renew his Nigerian passport, but was told that he had first to learn Yoruba, the indigenous tongue of the South West, even though he was born in Nigeria, his parents were Nigerian and the country's official language is English.

The only sure way to get things done is to go straight to the top. The president rules on important issues by decree, sometimes bypassing his profligate parliament. He is effectively his own oil minister (having left the post vacant), and does much of the foreign minister's job, too. Even rural folk have learnt to appeal to him when local authorities do not deliver. Delegations from the countryside beat a path to his office in Abuja, the capital, hoping to win his support for projects as small as drilling a bore hole in their village. As there are perhaps 120m Nigerians, Mr Obasanjo cannot hear all their complaints.

There is hope for change. Last month, a new finance minister, Ngozi Okonjo-Iweala, who used to work for the World Bank, promised that the civil service would be cut by 40%, and that top bureaucrats would have to pass exams to test their fitness for the job. Sacking people is hard, though, given Nigeria's tough labour laws, feisty unions and the culture of patronage that caused so many substandard civil servants to be hired in the first place.

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A massacre in Uganda

No respite

Feb 26th 2004 | LIRA
From The Economist print edition

Northern Ugandans are furious at the army's failure to protect them

AP

When will the killing end?

AT A rally for peace, the crowd beat a man to death before your correspondent's eyes. He was an Acholi: a member of the same tribe as Joseph Kony, the rebel boss whose atrocities the crowd was decrying. They beat him with shoes, sticks and also leafy branches, symbols of mourning for the massacre that Mr Kony's men had carried out four days before. The police hung back; the crowd was too big. If they had intervened, explained an officer, more people would have died.

The rebels of the Lord's Resistance Army (LRA) attacked a refugee camp near Lira, in northern Uganda, on February 21st. It is unclear how many people they shot, hacked or burned to death. Uganda's president, Yoweri Museveni, says 84; local sources say more than 200.

Molly Auma was resting her baby when the rebels arrived. A child soldier in gumboots pointed a gun at her face and shouted that if she tried to escape, he would shoot her. Another rebel set fire to her hut and pushed her inside. She ran; they opened fire. A bullet blew her baby's left shoulder off.

For 18 years, the Ugandan government has failed to crush the LRA. It is an elusive foe: it has no headquarters, controls no territory and has no realistic aims. Mr Kony apparently wishes to impose himself as god-king of Uganda. His footsoldiers lurk in the bush, strike without warning, kidnap new recruits and disappear into the night.

The army recently claimed to have “nearly defeated” the LRA. This latest attack may have been the rebels' rebuttal. Mr Museveni toured the worst-affected areas and apologised to the people there. Few seemed pleased to see him: cursory cheering and ululating quickly melted into complaints. Some locals believe they are neglected because they did not vote for Mr Museveni. The president blamed donors' restrictions on defence spending, but glossed over recent military corruption scandals, such as the officers who pocket non-existent “ghost” soldiers' salaries.

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Former Yugoslavia

Justice on trial

Feb 26th 2004 | THE HAGUE
From The Economist print edition

The long, slow trial of Slobodan Milosevic, former Yugoslav president, is raising questions about international courts

IT HAS been neither as short nor as salutary as believers in international justice had hoped. Moreover, the trial of Slobodan Milosevic, ex-president of Yugoslavia, has run into many practical snags. This week, just as the prosecution at the International Criminal Tribunal for the former Yugoslavia (ICTY) was preparing, at long last, to wind up its case, the 62-year-old defendant, whose illness had already interrupted proceedings a dozen times, fell ill yet again. And the presiding judge, Britain's Richard May, announced that he was to step down, also for health reasons.

The tribunal's American head, Theodor Meron, says that Mr May's departure should “not have an unduly disruptive effect on any proceedings”. But Mr Milosevic may now be able to demand a retrial. And that could conceivably mean abandoning two years' worth of hearings, involving nearly 300 witnesses and 30,000 pages of evidence.

Under the ICTY's rules, a replacement judge can be appointed if one of the three-judge panel dies or resigns in mid-trial. So Mr Meron could order the continuation of proceedings—but only if the defendant agrees. If Mr Milosevic, who has always refused to recognise the authority of the court anyway, will not agree, the two remaining judges could still decide to continue the trial if it would “serve the interests of justice”. They probably will. But Mr Milosevic would have a right of appeal, causing yet more cost and delay.

Charged with 66 counts of war crimes, crimes against humanity and genocide during the Balkan wars in the 1990s, Mr Milosevic is the first head of state since the second world war to have to answer for such atrocities. At the trial's opening, Carla del Ponte, the chief prosecutor, declared that it was “the most powerful demonstration that no one is above the law.” Human-rights groups predicted that it would set a “new benchmark”. Nobody wants to throw all that away, especially at a time when the very concept of international justice is under fire.

The ICTY, set up in The Hague in 1993, was the first international court of its kind since the Nuremberg and Tokyo tribunals after the second world war. In the years since, ad hoc war-crimes tribunals have been set up for Rwanda, East Timor, Kosovo, Sierra Leone and Cambodia. Hopes were high that they, together with a new permanent International Criminal Court (ICC) in The Hague, would end any notion of impunity for the chief perpetrators of atrocities—and so help to deter future ones.

But as the proceedings have lengthened and the costs have risen, disillusion has set in. The long American campaign against the ICC (not to be confused with the International Court of Justice, also in The Hague) has not helped. Last August, the UN imposed a “completion strategy” on both the Yugoslav and the Rwandan tribunals, requiring them to end all trials by 2008 and appeals by 2010. Financing (some $120m for the ICTY this year alone) will then cease.

Some criticisms of the ICTY are justified. All pioneers make mistakes, and the Yugoslav tribunal is no exception. But other shortcomings are inherent to international courts. The ICTY has had to harmonise different legal traditions, cope with multiple languages (of judges, lawyers, perpetrators and victims), and translate mountains of documents. Most of the cases before it are hugely complex, involving dozens of charges and hundreds of witnesses. Those convicted have a right of appeal against both conviction and sentence, which they always seem to exercise.

Evidence for war crimes is generally hard to come by, and suspects can be more elusive still. International tribunals do not have police powers: they cannot send in sheriffs to make arrests. They rely on the co-operation of foreign governments, which is not always forthcoming. The ICTY was lucky to have NATO and UN forces in Bosnia to help. But 20 of its chief suspects are still on the run, including Radovan Karadzic, the former Bosnian Serb leader, and Ratko Mladic, the general who allegedly organised the massacre of 7,500 Bosnian Muslims at Srebrenica in 1995. Mrs del Ponte has accused Serbia of giving these suspects a “safe haven”, and of failing to hand over vital evidence.

Based in The Hague, operating only under international law, and with no judges from former Yugoslavia, the ICTY has been criticised for its distance from the scene of the crimes, for making victims feel irrelevant and for leading the Serbs, who make up the great majority of defendants, to talk of “victors' justice”. Some even blame the court for the nationalists' revival in Serbia—both Mr Milosevic and Vojislav Seselj, a radical nationalist awaiting trial in The Hague, played a part in the elections in December and the political manoeuvring since (see article).

But the ICTY deserves praise as well as criticism. After an admittedly slow and shaky start, it has streamlined its operations and scored some notable successes. Between four and six trials are now being held in shifts every day, in the tribunal's three chambers. Of the 94 accused who have so far appeared before the court, half have been convicted, including Milan Babic, the former Croatian Serb leader. Eight are still on trial, including Momcilo Krajisnik, the Bosnian Serb leader accused of masterminding the Serbs' ethnic-cleansing campaign—the darkest chapter in a war that left some 100,000 Bosnians dead and forced a further 2m from their homes. Another 25 await trial; five have died after being charged; and five have had their charges withdrawn. Only five have so far been acquitted.

The prosecution has now agreed to rest its case forthwith, forgoing two days that had been allocated to it. The court has suspended its hearings until June 8th, so as to allow Mr Milosevic the extra time that he had requested to prepare his defence. This will also give time for a substitute judge for Mr May to get abreast of the proceedings. The court has given Mr Milosevic 150 days to complete his defence. Given a rhythm, on doctor's orders, of around three court days a week, proceedings could last well into 2006.

Will Mr Milosevic agree to a simple continuation of the trial? Officials suggest he has nothing to gain by prolonging things. But if he faces a life sentence anyway, he has nothing to lose either. More grandstanding on a public podium may be far more appealing than rotting quietly in a prison cell for the rest of his days.

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Serbia's troubles

A Balkan mess

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Serbs' dislike of The Hague war-crimes tribunal spills into politics

FOR liberal Serbs, as for anybody who wants Serbia reconciled with the West, co-operation between Belgrade and the International Criminal Tribunal for the former Yugoslavia in The Hague was supposed to be the first step in a benign process. The theory went like this. Some of the region's worst characters would be discredited in the eyes of the world, including among their own kin. Their malign influence on domestic politics would end. And the stain of Serbia's “collective guilt” would be wiped away.

In practice, it has all turned out rather differently. More than three years after the ousting of Slobodan Milosevic, Serbia is staggering through a political crisis, in which two of the protagonists are parties headed, until recently, by men who are now war-crimes suspects. The bidders for power in Belgrade include the Socialists, formerly led by Mr Milosevic, and the Serbian Radical Party, which did well in December's general election: its founder, Vojislav Seselj, is so extreme that before surrendering to The Hague he called the Socialists too soft. Both parties loathe any idea of more extraditions to The Hague. Vojislav Kostunica, the ex-president of Yugoslavia who is chief coalition-broker and prospective prime minister, says extraditions are not a priority for him either.

What has gone wrong? Many Serbs thought their country's dealings with The Hague were part of a bargaining process, in which they would make concessions in return for rewards elsewhere. As they see it, the concessions have all been one way. “The tribunal has lost the propaganda war,” says Dragana Nikolic, a Belgrade-based analyst at the IWPR news service. “Serbs believe that The Hague has blackmailed them, and they now hate it more than they hate NATO.”

Any bar-room pundit in Belgrade can reel off the court's failings. No ethnic Albanian has been indicted over the killings or disappearances of hundreds of Serb civilians in Kosovo during and since the war. (So far four Kosovars have been hauled to The Hague; the court says it is investigating others.) Another grouse arises from the revelation that Alija Izetbegovic, the late Bosnian president, was under investigation by the court. Why, ask Serbs, was the Muslim leader treated so leniently during his lifetime? A third grumble is that the court has refused to consider whether NATO might have been at fault in avoidably killing civilians in its 1999 air war against Serbia. (NATO says it tried to kill as few civilians as possible; human-rights observers reckon about 500 died.)

What few Serbs accept is that the removal to The Hague of some of the darker figures in their own political arena might have been of direct benefit to their country. And that this remains true regardless of any “rewards” such handovers might attract.

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Russian government

Here today, gone tomorrow

Feb 26th 2004 | MOSCOW
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Why did Vladimir Putin dismiss his government?

AFP

Putin leaves Kasyanov behind

IT IS said of Vladimir Putin that he never takes a decision before he has to. So why has the Russian president just fired the prime minister, Mikhail Kasyanov, and his entire government? After his re-election on March 14th and later inauguration, they would have had to resign anyway. It is surely not to save time. Although forming a new government can take a month—the president names a prime minister, parliament approves him, and he selects a cabinet, with time quotas for each stage—Mr Putin has the power to ram it all through in days if he so chooses.

Much reading of tea-leaves has ensued. Mr Putin hinted at several reasons in his short announcement: he wanted to "avoid uncertainties" by defining the new government early—perhaps a sign that he wants to cut short infighting for the job of prime minister. He said the Russian people "have a right to and ought to know" who will be running the country with him, suggesting that he may want to give the new team legitimacy by tying it to his re-election.

Mr Putin's move could at least add interest to an election that looks increasingly pointless. Several candidates are discussing a pull-out, in protest at bias in the media and the election commission. Some polls suggest that turnout might not reach the 50% required by law.

As Mr Putin put it, his decision was "dictated by the desire once again to set out my position on the course that the country's development will take" after the election. That line, delivered with an unusual sternness, looked like a clear "I'm-in-charge" message.

Recent months have seen turbulent confrontations between the Kremlin and Yukos, an oil company whose now-jailed ex-boss, Mikhail Khodorkovsky, had used his financial clout to win political influence. The Yukos affair had caused visible splits within the Kremlin, with Mr Kasyanov especially unhappy. Mr Putin may have simply wanted to show—to voters (who seem to like a strong president), to bureaucrats, to the parliament elected in December, and to the surviving "oligarchs"—that he is firmly in control.

What he means to do with his ever-tightening control will be clearer when he names a new prime minister. Will it be a placeman of the *siloviki*—literally the wielders of power, in other words the heads of the defence and security forces? Or will it be somebody closer to the interests of the business tycoons who, despite their recent skirmishes with the authorities, are still the Kremlin's only effective rivals for real power in Russia? Mr Kasyanov, who had held the job since Mr Putin's first election four years ago, was the last remnant from Boris Yeltsin's administration, and also the oligarchs' friend. He had been the most public critic of the handling of the Yukos affair.

By the time *The Economist* went to press, Mr Putin had not announced a permanent replacement. The man named as acting prime minister, Viktor Khristenko, is a neutral figure: a bureaucrat with no ties either to the pro-business clan or to the *siloviki.* He may be no more than a caretaker. Other front-runners include Sergei Ivanov, defence minister and arch-*silovik*, who, says Igor Bunin of the Centre for Political Technologies, could be a presidential successor. Alexei Kudrin, the finance minister, would be an experienced and safe pair of hands, and, judging by his recent behaviour, might heed Mr Putin's desire to keep the oligarchs at arms' length. At the same time, naming him or one of his more reformist colleagues, says Nikolai Petrov of the Carnegie Endowment in Moscow, would show that Mr Putin is, at least for now, keeping the *siloviki* away from the economic levers of government.

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Gastronomy in France

Oliver gets some more

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France's identity crisis spreads to cooking

FORGET the Islamic headscarf. What more potent sign of a crisis of confidence than the ascent, in the home of gastronomy, of Britain's Jamie Oliver, self-styled cheeky chappy and television celebrity chef? Mr Oliver has just launched his latest cookbook, “Rock'n Roll cuisine” in Paris, and his TV show, “Le Chef Nu”, is cult viewing. Tefal, a French maker of smart pots-and-pans, has even snapped him up as the face of a new stainless-steel range.

The French are baffled by the appeal of this Essex boy, whose parents ran a pub and who was trained at Westminster Catering College. “However much one sniggers, the country of “jelly” has given birth to the new star of world gastronomy,”*Le Parisien* commented sourly last month. Food critics and *grands chefs* have rushed to reassure the French that Mr Oliver is just cheap high-street fashion to their gastronomic *haute couture*.

Yet Mr Oliver's food-is-fun mantra, and simple but inventive recipes, seem refreshingly novel to people raised to revere the solemn and precise in cuisine. “Young people have lost the art of cooking,” says a publicity woman at CuisineTV, the channel that screens his shows. “Jamie's demystified it.”

The embrace of an outsider in a land whose culinary tradition goes back to Escoffier, Carême and La Varenne touches wider concerns. The government has set up an Institute for Higher Studies in Taste, Gastronomy and Table Arts, to protect the art. It is fretting over the wine industry, suffering from less drinking at home and more competition abroad. Fast-food consumption and obesity, especially among children, are rocketing.

Even the bible of French restaurants, the Michelin guide, which unveils its 2004 edition this week, has run into controversy, after a former inspector claimed that understaffing meant that not every restaurant was visited every year. Michelin retorts that it inspects top restaurants many times a year. But the industry is sensitive to hints of flaws in restaurant guides. A year ago, Bernard Loiseau, a three-starred chef in Burgundy, shot himself after being downgraded by a rival guide, Gault-Millau.

Chefs concede that France no longer has a monopoly on good food. “I know it is hard for the French to hear,” Alain Ducasse, another three-starred chef, told *Paris-Match* recently, “but one can eat as well in New York or Milan as in Paris.” France still boasts over half Michelin's three-starred restaurants in Europe. But many *brasseries* in Paris have sunk into mediocrity, serving up wilting lettuce leaves and dehydrated *confit de canard*, and rejecting foreign influences. In the home of gastronomy, why try anything new? Leave that, it seems, to the lad from the land of lamb with mint-jelly.

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German politics

In search of Schwarzenegger

Feb 26th 2004 | HAMBURG
From The Economist print edition

If you think populists will never have a chance in Germany, think again

FOR somebody fighting for his political survival, Ronald Schill, Hamburg's former interior minister, is surprisingly relaxed. Lunching on his favourite food of oysters seems as important to him as campaigning to get back into parliament at the city-state's election on February 29th. He even stays calm when complaining that he is the victim of a political conspiracy.

Mr Schill has certainly made it easy for any conspirators. In September 2001, running on a law-and-order agenda and his record as a judge, his party won a sensational 19.4% of the vote in Hamburg, and joined the governing coalition. Yet “Judge Merciless” is now plodding along in low single figures, thanks to a chapter of travails that included a xenophobic speech in the federal parliament and improprieties by a close aide. The last straw came in August, when Mr Schill apparently accused Ole von Beust, Hamburg's mayor, of a homosexual relationship with the justice minister. The mayor fired Mr Schill—and his party later expelled him.

If pollsters are right, Mr Schill's new party, called PRO-DM, will not scrape up enough votes to enter parliament. But his fate may help to answer an often-asked question: can a right-wing populist party ever become a permanent part of the political landscape in Germany, as it is in many other European countries?

It is not that there is no demand for such parties, says Frank Decker, a political scientist at Bonn University. As in Austria, France or Denmark, plenty of Germans feel they are losing out to economic and social upheaval, and are willing to support such people as Mr Schill. The problem is more of supply. There are institutional barriers: for instance, the 5% minimum threshold, and Germany's federalist structure, which allows voters to express frustrations at state level. Established parties have also done a good job of taking over typical populist issues, notably immigration.

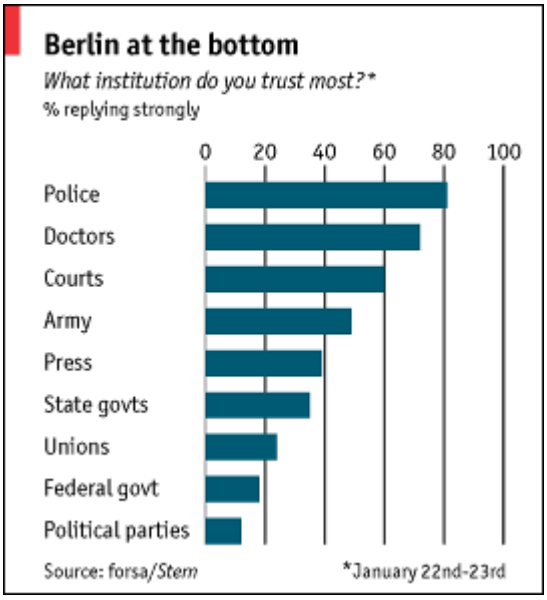
Then there is history. The media will not touch right-wing populists. And extremists, because they are unwelcome elsewhere, tend to infiltrate any new populist parties, making them less attractive. On top of this, there have been no charismatic politicians to match Jörg Haider in Austria or Pim Fortuyn in the Netherlands.

Many expected Mr Schill to become one. As a former judge with no political background, he could not be suspected of being a neo-Nazi, which made it easier for conservative media to back him. He also gained support because the Social Democrats, who had ruled Hamburg for 44 years, realised too late how big an issue crime was. If his party had not attracted so many “gripers and careerists”, as he calls them, it might have achieved the all-important follow-on success. But it won only 0.8% at federal elections in 2002.

Populists could yet do better in 2006. For one thing, they are learning from past mistakes. Mr Schill's new party, for instance, hand-picks its members. Its founder, Bolko Hoffmann, has a plan: enter Hamburg's parliament and then Saxony's. The demand for a populist party is growing, thanks to the painful economic reforms made by the governing Social Democrats. Disgruntled voters do not think the Christian Democrats would be much better. Political parties have long been unpopular, but they are now the least trusted bodies in Germany (see chart).

So far, frustration with politics is mainly reflected in the mass

media, especially *Bild*, the tabloid (and populist) daily. It recently asked: Do we need a German Schwarzenegger? As for Mr Schill, if his party fails to enter parliament, Judge Merciless threatens to leave Germany and live as a dropout in South America.



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European Union enlargement

Smallness pays

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How the rich and tiny manage to win the most privileges

MOST of the ten countries joining the European Union on May 1st have been grumbling about plans by the current members to restrict free movement of workers or, as Britain has just proposed, to tighten eligibility for welfare benefits. But Malta has been conspicuously silent—and no wonder. For workers from tiny Malta (and not-much-bigger Cyprus) will be allowed into existing EU countries without any restrictions, since they are deemed unlikely to disrupt labour markets. Yet Malta will keep the right to shut out migrant workers from other EU member states if it fears overcrowding.

This deal is one of more than 70 exemptions that Malta won when it negotiated its entry to the EU. The next-most-demanding negotiator, Poland, came away with 43 exemptions, followed by Latvia with 32. Such “transitional arrangements” are meant to give new members time to adjust to EU rules that are too expensive or too unpopular to implement immediately. Countries may, for instance, need more time to raise taxes on cigarettes to EU levels, to phase out subsidies to heavy industries, or to improve veterinary standards.

In a few cases transitional arrangements have been forced on new members by existing EU countries that fear sudden competition. Restrictions on the free movement of labour come under this heading. Similarly, farmers in central Europe will for a time get lower subsidies from the common agricultural policy. But most transitional arrangements are, in effect, special privileges. Which invites a question: why should Malta, one of the richest accession countries, burdened with neither a communist past nor problems of civil order, have been granted more than any other acceding country?

One answer, suggests Roderick Pace of the University of Malta, is that Malta has used its small size to advantage in negotiating. Seen from Brussels, an exemption affecting a mere 400,000 Maltese seems a trivial affair, easier to concede than one affecting 40m Poles. Malta also argued that it is, by some measures, the most densely populated country in the world. Partly on this ground it has won the right to bar foreign labour for up to seven years, and also the right to block non-residents indefinitely from buying second homes on the Maltese islands—the only permanent derogation granted to any accession country.

Malta's winning streak is likely to continue. Once in the EU it will have the over-generous representation and voting rights that EU bodies give tiny countries as a matter of course. Big members like Estonia and Slovenia must look on enviously.

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Birdshooting in Malta

No more Maltese falcon

Feb 26th 2004 | NAXXAR, MALTA
From The Economist print edition

Yet another exemption for Malta

WITH spring approaching, thousands of birds are heading to the islands that make up Malta. Sadly, as every year, many will not leave alive. Since time immemorial, hunters have trapped, killed and eaten migratory birds on their way to and from Africa. Songbirds have long been trapped and caged for entertainment or as pets.

But Malta has become more image-conscious as its EU entry draws near. That makes it odd that the government has opted out of an EU law protecting birds from spring hunting. The shooting of turtle-doves and quail will continue through their migratory season. Nor will only these two species suffer, for Malta has a long record of illegal hunting.

Today's hunters see stuffed birds as trophies: the rarer the better. Eagles, swans, flamingos, golden orioles, honey buzzards and falcons are prized specimens. Swallows and swifts are mere target practice. Such is the passion for shooting that speedboats are used to hunt birds at sea. Some hunters stray into nature reserves. The *Times of Malta* recently reported that two spoonbills resting overnight in Ghadira Nature Reserve were shot by “unknown persons” who cut through a fence. All that was left the following morning were bloodstained feathers.

The government is appeasing just 16,000-odd registered hunters (only 4% of the population). In its accession talks, admittedly, it tried to please both hunters and greens. Concessions were made: trapping is being phased out. But the big problem lies in enforcement. Police trying to catch those who kill or trap protected birds are hugely outnumbered. Only if hunters are caught shooting birds other than turtle-doves and quail in the spring might the EU re-examine this particular Maltese exemption.

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Charlemagne

A golden age?

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The forward march of European integration seems in peril

"EVER closer union" is not just an aspiration or a phrase in a European treaty. For the past 50 years it has been an accurate description of an historic process. Starting with a modest merger of coal and steel industries in 1951, the architects of the modern European Union have progressively dismantled barriers to the free movement of people and goods, and gradually turned slogans about a continent without borders into a reality. You can now drive from Lisbon to Vienna without showing a passport or changing your money. Advocates of "ever closer union" hope and believe that they will make still more progress later this year, with agreement to a new constitution that would advance the cause in such new fields as foreign affairs, defence, criminal law and immigration.

They may be right. But there is another possibility. Europeans might yet come to look back on 2004 as the end of a golden age of integration—and the moment when the whole process came to a stop, or even began to go into reverse. It remains distinctly possible that the proposed constitution will not be agreed; and that, even if it is agreed, it may never be ratified. At the same time, three of the central achievements of the European Union—the free movement of people, the creation of a single market for goods and services, and the single currency—are all coming under strain.

That is partly because the present 15 EU members have suddenly been afflicted with an attack of nerves at the prospect of ten new countries, mainly from poorer central Europe, joining on May 1st. The immediate cause of their anxiety is that all EU citizens have the right to move to, and work in, any other EU country. A combination of worries about cheap labour and the potentially magnetic effect of generous welfare benefits in western Europe has led a succession of countries to introduce restrictions on newcomers' rights to work or to claim benefits. EU law says that any such restrictions must last only for a maximum of seven years. With luck, fears about floods of immigrants will prove unfounded and the restrictions will soon be lifted.

But if some of the scare stories—for example, about the mass movement of Roma gypsies to western Europe—prove at all justified, the opposite could happen. The richer members of the EU might seek to prolong the life of their "temporary" restrictions. They might even move beyond restrictions on the movement of labour and start to question the principle of passport- and visa-free travel across the EU. Already there are grumbles in France, for example, that the creation of the Schengen border-free area has let drugs flood in from the Netherlands and illegal immigrants arrive from all over Europe. Worries about monitoring terrorism could also play into the hands of policemen who would welcome some way of bringing back controls over the flow of people. Such a reversal would not be unprecedented. As Harold James, a historian at Princeton University, has pointed out, the inter-war period in Europe saw the end of a period of mass migration within Europe and the creation of a "new world of passports and visas".

The freedom to move around the Union is the right that means most to ordinary citizens. For business, however, it is the single market that is crucial. The EU has gone well beyond the simple business of scrapping tariffs, and declared war on all sorts of protectionist national rules as well as on subsidies to domestic industries. In theory, at least, EU leaders have promised to launch a new round of deregulation as part of their "Lisbon agenda" of economic reform. In practice, many remain inclined to ignore regulations that upset local interests. Almost 10% of single-market directives have yet to be fully implemented.

Ominously, the leaders of France and Germany, two of the worst laggards over these directives, are also chafing at EU rules that stop them subsidising industries. Gerhard Schröder, the German chancellor, has attacked the EU's "anti-industrial bias". Jacques Chirac, the French president, has called for the EU to promote "industrial champions". Neither leader dares to attack the single market head-on. But both show

signs of wanting to re-interpret it in ways that reduce competition and promote statism.

Currency woes

Both free movement of people and the single market are achievements that are made up of masses of laws vulnerable to a campaign of chipping away. The single currency is not exposed in quite the same fashion. With the introduction of notes and coins in January 2002, it became a fact of life in 12 countries, with even more now queuing up to join. And, after a long period of weakness on the foreign-exchange markets, it has now become, if anything, too strong for most euro members' taste. Yet the decision by France and Germany to rip up the stability pact that laid down fiscal rules for euro members has led to the raising, in some surprising quarters, of concerns about the long-term future of the currency.

One example is a paper written by Joachim Fels, chief European economist at Morgan Stanley, an American investment bank, that questions the euro's long-term viability. According to Mr Fels the significance of the overturning of the stability pact was that it showed that larger members of the euro “are simply unwilling to accept any serious interference with their sovereignty over national fiscal policy.” Investors should, he concludes, “attach a higher probability to a break-up of Economic and Monetary Union and/or the EU at some future date.”

Mr Fels says his doubts about the euro's future were stirred by divisions within the EU over Iraq. But since then there have been further rows, over the stability pact and the constitution. True believers have always argued that, in the long run, enlargement makes the logic of “ever closer union” ever harder to resist. Recent strains on the system must now be causing even them to harbour some doubts.

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Multiculturalism

The kindness of strangers?

Feb 26th 2004
From The Economist print edition

Diversity makes people anti-social. That is not as catastrophic as it sounds

Get article background

WHEN Robert Putnam, a Harvard University sociologist, visited Downing Street three years ago, he said exactly what the government wanted to hear. In his influential book “Bowling Alone”, Mr Putnam had argued that communities were getting more fragmented and mistrustful—in the jargon, they were haemorrhaging social capital. Happily, though, a committed government could staunch the flow with clever social initiatives. People could be persuaded to trust one another, which would make them healthier, happier and less criminal to boot.

Less back-slapping will occur during Mr Putnam's return visit next week, to a private seminar organised by the home secretary. That is because his research has taken a dismal turn. A large ongoing survey of American communities seems to show, uncomfortably, that levels of trust and co-operation are highest in the most homogenous neighbourhoods. People living in diverse areas, it turns out, are not just more suspicious of people who don't look like them; they are also more suspicious of their own kind. Because of that, they suffer socially, economically and politically.

The worries of one of Tony Blair's favourite gurus chime with a growing concern about the social consequences of Britain's biggest-ever immigration wave. Although numbers seeking asylum seem to be tailing off, fears now focus on those expected to come from the ten countries joining the European Union in May. On February 23rd, Britain became the latest EU country to throw up hurried defences against a projected “flood” of immigrants. They will be allowed to work in Britain, but not to claim most welfare benefits.

Unusually, nativist cheers at this move have been accompanied by sighs of relief from some on the left, who worry that if people are unable to identify with the foreigner who lives next door, they will not contribute to things like union funds and social security programmes. David Goodhart, editor of *Prospect* magazine, has framed the “progressive dilemma” starkly. Britain can have either mass immigration or generous welfare, he says, but not both—and of the two, welfare is better.

Nobody has yet worked out whether Britons living in racially mixed streets are less likely to exchange cups of sugar. Certainly, the pattern holds true for large areas. The 2000 General Household Survey found that the three most mixed areas (London, the West Midlands and the South East) had the lowest proportion of neighbourly people, while the four most lily-white areas (Scotland, Wales, the North East and the South West) had the highest. But that may be because the most diverse regions are also the most urbanised.

There is better evidence for a link between immigration and attitudes to welfare. A recent MORI poll found that half of all people who felt hard done by reckoned that immigrants and ethnic minorities were getting priority over them. Only 8% pointed a finger at single mothers, the former scapegoats of the benefits system. Such sentiments may make people stingy: Canadian researchers have shown that xenophile nations have seen the smallest increases in welfare spending over the past 30 years. If the pattern holds true, Britain will become less like Scandinavia and more like America, with its racial diversity and frayed social safety net.

Separating cause from effect is a little tricky here. It may be, for example, that immigration helps nations keep their bills down. But the interesting thing is that connections between immigration and social dislocation have been made, and not just by men in jackboots. For the sake of Britain, is it time to raise the drawbridge?

There are strong reasons to think not. Shamit Saggar, who follows the topic at Yale University, says there is no point in trying to rebuild cohesive communities of the sort that may, in any case, never have existed. “We should develop a glue that is sticky enough to build common outlooks in times of need, but is not so sticky and cumbersome that it cements us into uniformity,” he says. That can be achieved partly through things like citizenship ceremonies, and partly by whittling away at the old inequalities that lead to isolation and mistrust.

There is a case, too, for reforming the welfare state rather than immigration. The argument that countries can have either mass immigration or generous social spending assumes that welfare is what economists call a club good—something that can be denied to outsiders. That perception is reinforced by government decisions, like the one made this week, to restrict benefits to those who have been in Britain for two years. Fair enough, hard-nosed progressives might think. But does this mean that, having earned their way to the honeypot, people should be able to feed off it forever? It is probably better to do as the Canadians do, and use welfare to ease people into work.

Even if there were a stark choice between diversity and social solidarity, it is not clear that the latter would be better. In 1856 Walter Bagehot, deprived of the diversity which the past century and a half has brought, railed against his tight-knit society, which he thought stifled excitement and innovative thinking. “You may talk of the tyranny of Nero and Tiberius,” he wrote, “but the real tyranny is the tyranny of your next-door neighbour.”

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Migration fears

Myths and reality

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Are immigrants bad for the economy? That depends on who you are

THERE are three big worries about the economic and fiscal consequences of immigration. First, migrants steal jobs. Second, they lower wages. Third, they are benefit-scroungers, generating a net burden on taxpayers. How justified are such fears?

The first is a myth. The accusation that migrants steal jobs is a version of the “lump of labour” fallacy—that there is only so much work to go around. But in a flexible economy the labour market adjusts to an increase in the supply of workers and more jobs are generated.

Research by Christian Dustmann, an economist at University College London, finds no evidence that previous migration flows in the 1980s and 1990s have taken jobs away from the existing population. What's more, today's labour market, with unemployment at a 28-year low and over half a million vacancies, is much tighter than in either of those periods.

Mr Dustmann's research also suggests that wages among existing workers have not been materially affected by immigrants; if anything they have risen. This conclusion, based on a small sample, runs counter to the general presumption, backed by empirical findings in America, that immigration lowers wages. That effect is, however, quite modest; an authoritative study by the National Research Council (NRC) found that immigration in the 1980s cut the wages of competing workers by 1-2%. Those most affected were previous immigrants, because they tended to be in the low-wage jobs for which new immigrants were competing.

That's not much fun for the affected workers, but everybody else benefits. Consumers gain when they can buy services—like house-painting or takeaway meals—more cheaply. Domestic shareholders and employers benefit because returns on capital rise when wages are held down.

The third worry—that migrants are benefit-scroungers—is another myth. The vast majority come here to better their lot in the workplace. Unemployment rates among immigrants—except the Chinese or Indians—are higher than among people born in Britain, but this probably reflects difficulties in finding a job, such as poor language skills. Among those in work, immigrants are more likely to be self-employed than people born in Britain.

Nor are they a net burden on the taxpayer, according to a Home Office study which calculated that in 1999 existing migrants contributed £2.5 billion ($4 billion) more in taxes than they received in benefits and services like health and education. The NRC report, by contrast, suggests that immigration into America initially results in a net cost to the taxpayer partly because of the expense of educating immigrants' children. But in the longer term, it calculated that immigration will generate a substantial budgetary gain.

For immigration to be of mutual advantage, both migrants and the host country have to work hard. Migrants can generally be relied upon to do just that. They are motivated by a desire to get on—a further reason why employers rate them. But they can also do with some help, especially in learning languages, which greatly improves their chances in the labour market. Arguably, it is the host countries like Britain that need to work harder by helping more with such integration.

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About sponsorship

Terror detainees

What now?

Feb 26th 2004
From The Economist print edition

The difficulty of dealing with Guantánamo Bay detainees

AFTER being held for more than two years without trial, five of the nine British detainees at the American base in Guantánamo Bay are to be released and, probably, returned to Britain within the next few weeks. What then happens, however, is unclear. David Blunkett, the home secretary, has claimed that none of the men “poses a threat to the security of the British people”. This has led many to assume that they would simply be let free. But Jack Straw, the foreign secretary, has indicated that they could be arrested for questioning about “possible terror activities”. It would then be up to the police to decide what further action to take, he said.

But they are unlikely to be imprisoned again. It would be difficult to prosecute them for offences committed outside Britain, and much of the evidence collected by American interrogators would be inadmissible in English courts. Hence, perhaps, Mr Blunkett's surprising suggestion last month of special trials for suspected terrorists, held behind closed doors, without juries, and with a lower standard of proof than normally required. This proposal met with general hostility, which was probably why it did not appear in Mr Blunkett's anti-terrorist discussion paper, published this week, on reconciling collective security with individual liberties.

Should the five Britons now be welcomed back as innocent victims of what Lord Steyn, a British law lord, has described as “a monstrous failure of [American] justice”? Or should they be regarded as “dangerous terrorists”, as Donald Rumsfeld, the American defence secretary, has branded all 650 Guantánamo detainees? None of the Britons has been charged with a crime, let alone convicted. But this does not necessarily say anything about their innocence or guilt. Until this week, when two Guantánamo detainees were charged with “conspiracy to commit war crimes”, none of the other prisoners at the camp had been charged either.

Why are the five Britons being released now? The Americans say it is because they no longer pose any security threat. This is odd. After more than two years in a legal black hole without access to lawyers, family or the courts, any latent feelings of antipathy toward the United States might have been expected to have strengthened rather than diminished. An alternative explanation provided by the American commander of the Guantánamo base, Major General Geoffrey Miller, rings truer. The five, he said, could not provide any further useful information.

There have been suggestions that the release of the Britons is a further mark of the special relationship between the United States and Britain. That is implausible, since a total of 93 detainees has so far been released, four into continued custody (in Saudi Arabia), one for prosecution in his own country (Spain), and the rest simply set free after being “transferred to their home governments”.

The approach of American Supreme Court hearings in April on the status of the Guantánamo detainees may have something to do with it. Since the Supreme Court agreed last November to take on the case, the administration has made a series of conciliatory gestures toward the detainees. The court is to rule in June, a few months before the presidential elections. It would be a huge embarrassment to Mr Bush if the case went against him.

The ruling could affect the fate of the four Britons who will remain in Guantánamo, and are expected to face trial before military tribunals. These have been widely condemned—by, among others, one of the military lawyers assigned to the detainees, who describes them as “an unfair system that threatens to convict the innocent and provide the guilty with a justifiable complaint as to their convictions”.

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Spying

Bugging the UN

Feb 26th 2004
From The Economist print edition

Trouble with spies and ex-ministers

Get article background

AFTER a couple of weeks in which the government had managed to switch attention back to domestic concerns, Iraq reared its head again on February 25th. This time it was nothing to do with WMD, but with the sudden withdrawal of a case brought by the government against a whistle-blower from GCHQ, the secretive electronic eavesdropping operation.

Katharine Gun, a 29-year-old Mandarin translator, was being prosecuted under Section 1 of the Official Secrets Act, a draconian piece of legislation most often used to stop disillusioned spooks from spilling the beans after they have left the service. Mrs Gun had taken it upon herself to leak to a national newspaper a secret e-mail from an official working for America's National Security Agency that revealed plans to bug members of the UN Security Council before a crucial vote on the conflict.

AP

We're listening

A pretty open-and-shut case by the look of it, given that Mrs Gun did not dispute the facts. However, just before proceedings were about to start, the Crown Prosecution Service announced it had decided to offer no evidence against Mrs Gun. As she walked free from the Old Bailey into a media scrum, speculation began about why the government had decided to pull the case. Mrs Gun's lawyers helpfully suggested that the attorney-general, Lord Goldsmith, had acted to prevent scrutiny of his only-partially published advice on the legality of the war—a key element in Mrs Gun's defence. Absolutely not, huffed officials: the case had been dropped for legal and technical reasons, not for reasons of political sensitivity.

What seems more likely is that, in consultation with the Americans, the government decided to prevent further disclosures of intelligence. In the short term, this must have looked the least unattractive option. But the worry now is that Mrs Gun's example will embolden others in the intelligence and security services to come forward with embarrassing revelations about the war. There are deep divisions over Iraq within the intelligence community, and plenty of scope for further trouble.

One predictable source of it was Clare Short, the former international development secretary who resigned over the war. Since her departure from the government, she has used every opportunity to undermine the prime minister. The accusation she levied during a BBC interview the morning after Mrs Gun's release was at least a new one. According to Ms Short, British intelligence routinely bugged the UN, including private conversations of Kofi Annan, the organisation's secretary-general. As a minister, she had not only seen such transcripts, but also wondered whether her own chats with Mr Annan were being secretly recorded.

It is not, perhaps, surprising if GCHQ does its best to gather intelligence that may be useful for foreign and security policy-makers. That's what it is for. Nonetheless, many people will be shocked by Ms Short's claims, while others will see conspiracy behind the dropping of the case against Mrs Gun. Both of which Mr Blair could do without.

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Maths

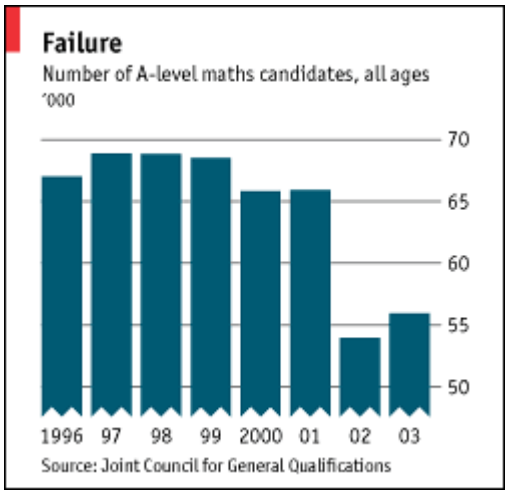
Doesn't add up

Feb 26th 2004
From The Economist print edition

Low pay for maths teachers equals few maths graduates

EVERYONE loves maths: employers, universities, politicians—all wish schools taught it better. Yet as a government-sponsored inquiry into maths teaching by Adrian Smith, a mathematician and university vice-chancellor, noted this week, quality and quantity are languishing.

So why does demand not bring forth supply? The main reason is a shortage of maths teachers, and the main reason for the shortage is that their pay is too low.



That creates a vicious circle. Maths is peculiarly vulnerable to being taught badly: an unenthusiastic teacher in junior school can put children off the subject for ever. Remedial maths teaching is particularly difficult, and often unrewarding for keen teachers who want to tutor the numerate and enthusiastic. The current maths curriculum, which has suffered much ill-advised tinkering in past years, is frustrating to teach, too theoretical for the dim and too easy for the clever.

All that means that results are pretty poor at 16 and worse thereafter. Too few pupils study maths to 18, and even fewer go on to study it at university. That means an even smaller pool of potential maths teachers—and a bigger premium on mathematical skills from other employers. Even independent schools, which can pay higher salaries, find it hard to recruit good maths teachers. For state schools the pickings are even thinner.

As a result, this week's inquiry estimates that there is a shortfall of 3,400 maths teachers. More than 30% of those teaching A-level maths do not themselves have a degree-level qualification in the subject. Solving that would require recruiting more than 40% of the current crop of mathematics graduates in coming years.

Paying maths teachers more, as the report recommends, sounds simple, but will be hard to push through. In theory, schools now are free to pay more to attract and keep good teachers. A recent government report on schools noted that in practice, this rarely happens: schools tend to keep to the national norms for fear of seeming “divisive and unfair to existing staff”.

The government can fiddle with the existing system a bit—for example by increasing schemes that pay bonuses to new maths teachers and write off their student loans. But so long as head teachers and education authorities care more about fairness than excellence, bringing scarce but important skills back into the staff room will be hard work.

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Films and tax relief

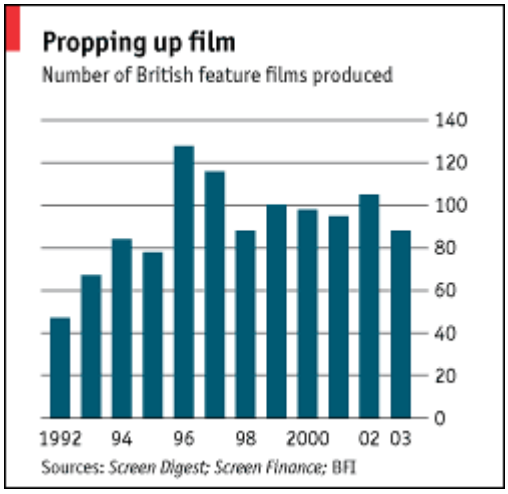
Baby and bathwater

Feb 26th 2004
From The Economist print edition

The Treasury is cutting film tax relief; but is subsidy worthwhile?

THERE has been plenty of argument over whether the huge subsidy that British films have got from the National Lottery has produced anything worth seeing. But much more important, though less visible, has been the subsidy from the Treasury. While the National Lottery has handed the film industry over £100m since 2000, the Treasury gave it nearly £400m in tax relief in 2002-03 alone. Now the Treasury has called a halt to part of that subsidy, films are being cancelled, and the industry says it is under threat.

The reason the Treasury called a halt to one particular tax scheme was that it enabled wealthy investors not just to get tax relief but actually to make a profit out of the Inland Revenue. The gimmick ran thus. Put £20,000 of your own, plus £80,000 borrowed, into a film partnership. In its early years, the partnership will have no income: you can at once claim a loss of £100,000 and set it against other income or capital gains. Result: £40,000 of tax relief. Later, if the film makes money, you will get pure income, with no cost to set against it: say an extra £100,000, and with it an extra £40,000 tax bill. Overall result: zero, with the small plus that you've put off a fat tax bill for several years.



So far, fair enough. But there was a twist: sell your right to future income, thus pay off most or all of your loan, and get out of the partnership early. Result: whether the film booms or flops, you have put in your own £20,000, plus some costs, and got £40,000 from the state. It is this twist that the taxmen plan to stop.

Yet even if the scheme has been misused, it has financed real films. By changing it overnight—the relevant bits of the coming Finance Bill will be backdated—the Treasury will, says the industry, kill many worthy projects. “Tulip Fever”, a film appropriately enough about financial shenanigans in 17th-century Holland, and due to star Jude Law, has been halted. Daniel Taylor, managing director of Grosvenor Park, the biggest financier of independent producers, says it has 24 films with budgets totalling £150m due to tie up financing by April 5th, the end of the tax year, that are now at risk. Johnny Depp is in Britain for one film. He has six weeks for it, and cannot wait for the producers to rustle up more money. The British would-be producer of a film about the explosion that wrecked Halifax, Nova Scotia, in 1917, had already moved there to shoot the picture. Now it is at risk.

And now? There is a separate scheme for British films budgeted up to £15m, which runs until 2005, but it doesn't add up to as much as the cancelled scheme, which Grosvenor Park says brought in around 30% of its film finance. The Film Council this week was arguing with the Treasury for at least a transition, not abrupt change. But whether or not it succeeds, the Treasury has raised the big question of whether film subsidies work, in terms of either jobs or national culture.

The current system is probably less bad than the 1950s device of forcing British cinemas to show a quota of British films. Most were junk.

The world's best films are produced by America's unsubsidised industry, but with such a large market and so much cash it could hardly fail to produce some class. All rich countries subsidise their film industries to some extent to protect them against the Americans. The French, notably, are massive subsidisers, and last year produced 200 films, which are occasionally good enough to export. The subsidy continues: EU ideas of limiting them to a mere 50% of budget have shocked French producers. Germany's tax-

avoidance system has been a huge success—mainly to Hollywood's benefit, and it has recently been cut. The Spanish film industry, which has produced some corkers lately, is heavily backed by ONCE—paradoxically, the institute for the blind—which runs the national lottery. Belgium is just bringing in tax breaks; even Brazil has them, though its 170m people might seem enough to support a big industry anyway.

In Britain, the usual mechanism has been to let capital costs be written off speedily. In the 1980s Margaret Thatcher's government ended a system of this sort—and film investment collapsed. In the mid-1990s it took off again after the government reinvented a version of it, which in practice mostly helped big-budget American-financed films. Lottery funding kicked in around then, as, in 1997, did the scheme for smaller films.

The boom in activity since 1996 suggests that the industry has gained; it reckons to have done a record £1.2 billion of work in 2003, at least half from abroad. Almost all of these films will have had some subsidy or other. And without it they could easily slip abroad. An Irish location will often do for a British one. Anyway, film's increasing dependence on computer graphics means it is less tied to place.

But does national culture—the only justification for subsidies—benefit? Few successful films—“Bend It Like Beckham” would be a rare exception—reflect anything authentically British. Most—“Bridget Jones's Diary” and “Gosford Park”, for example—portray a sort of theme-park Britain. For good reason: they have to sell in America as well as Britain, so they have to portray the Britain that Americans would like to see. If cultural subsidies are about reflecting real Britain, television may be a better place to do it.

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Newspapers

Paper dreams

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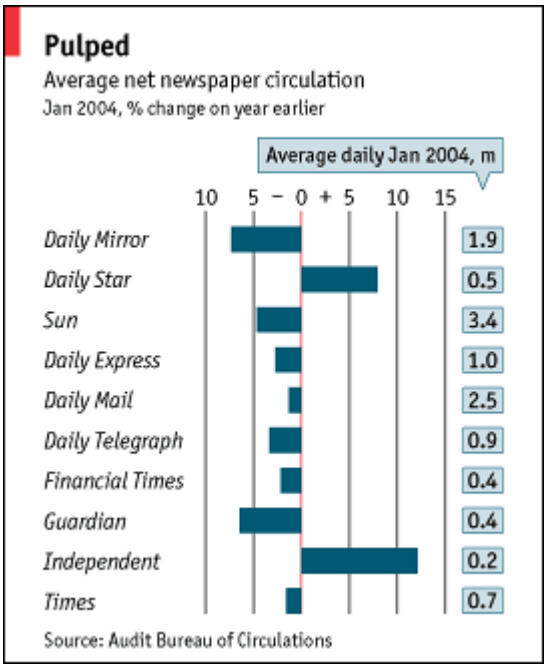
Could there be a market for a serious paper?

SADLY for print journalists, young people find television, the internet, video games and magazines far more interesting than newspapers. Because few of them are bothering to form the habit of buying a paper in the morning, the group of people that read them is ageing and gradually dying off. At most papers circulation has fallen slowly and steadily. In the past six months, sales of quality dailies were 5% below the same period of the previous year. The last thing anyone would want to do, surely, is start another one.

But readers may soon have the treat of watching the birth of a new daily. Stephen Glover, a journalist at the *Spectator*, a weekly magazine, and a former co-founder of the *Independent*, a national daily, is currently trying to raise £15m to start a paper called the *World*. Mr Glover's idea is for it to be unashamedly serious and high-minded. It will eschew the sort of celebrity gossip, trivial personal-interest stories and cheap titillation that supposedly "quality" papers have desperately stuffed themselves with in recent years to try to stop readers drifting away.



Mr Glover reckons that a lot of well-off readers have deserted British newspapers in reaction to this dumbing down, and that the *World* can win them back with intelligent coverage of politics, economics, culture and foreign affairs. The paper will be a tabloid: along with the *Times*'s and the *Independent*'s move to a "compact" format last year, Britain's unusually strict division between downmarket tabloid and quality broadsheet is disappearing.

Might the *World* succeed? According to Mr Glover's business plan, it could break even on a circulation of 100,000, a modest target. The timing is right since advertisers are just starting to spend again after a long dip. To survive in what is the most competitive newspaper market in the world, the *World* will keep its expenses low—at as little as a third to a half of costs at other national papers, claims Mr Glover. There will be no fat expense accounts for hacks or company cars for management. The new paper will stick to cheap offices away from central London and Canary Wharf, and it will employ a fraction of the number of journalists that other papers do—though this does not bode well for the quality of its content.

One potential boon for the new paper could be if the *Daily Telegraph*, a paper owned by Conrad Black, who is accused of taking money from his company without authorisation, falls into the hands of a buyer of whom its readers disapprove. So far Sir David and Sir Frederick Barclay are in a strong position to win control of it, but if another keen bidder, Richard Desmond, owner of Express Newspapers and several pornographic magazines, got hold of it, the *World* could benefit from an exodus of journalists and readers.

But the *World* will need all the help it can get, even if it raises its cash. One of the hardest tasks will be winning market share in classified advertising, since the incumbents are so entrenched. That will be especially hard these days, since classified ads are leaving newspapers for the internet. And if the *World* is too high-minded, women will shun it. They particularly like celebrity gossip, real-life stories and articles on leisure. Even if a newspaper with a loftier tone turns out to be just what the market ordered, the

World is not necessarily safe. Other papers would easily be able to lift their proportion of serious content if they see it winning readers.

But readers may not be the *World*'s ultimate target. The main attraction of newspapers from a financial point of view, says a potential investor in the new venture, is that rich, politically ambitious people often buy them for high prices that are unrelated to their actual profitability. Watching bidders jostle to buy the *Daily Telegraph*, which is a prestigious title but has the oldest readers of any British paper, will no doubt have reminded Mr Glover and his fellow founders of this. If the *World* can build a journalistic reputation for itself, and if it manages not to run out of money too quickly (which, on £15m, will be tough), it could make a nice luxury item for a rich wannabe proprietor.

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Bagehot

The love that dare not speak its name

Feb 26th 2004
From The Economist print edition

John Kerry's campaign will embarrass Tony Blair. But it may not all be bad news

AS THE American presidential campaign starts to get down and dirty, no outside observer will be following its course with greater interest or with more mixed feelings than Tony Blair. Under normal circumstances, a British Labour government would be (quietly) cheering on any respectable Democratic contender. But these are hardly normal circumstances.

Mr Blair has to stay scrupulously neutral in the contest between President George Bush and Senator John Kerry (assuming it is he), while members of the government and his own staff are under strict instructions to do the same. Moreover, those close to him claim, almost plausibly, that Mr Blair wins whatever the outcome in November. If only it were that simple.

In common with most of his Downing Street predecessors since the second world war, it is an article of faith for Mr Blair that no relationship is more critical for Britain's international influence than the one between the prime minister and the president. But Mr Blair has taken that doctrine further, characteristically imbuing it with a higher moral purpose. Mr Blair believes that it is primarily through actively engaging America that Britain can contribute to making the world a better place.

Thus, Mr Blair needed no second bidding when, following the election of George Bush, Bill Clinton, his political soulmate and hero, advised him to “be his friend; be the guy he turns to.” The rest is history. Regardless of what Mr Blair does with the time remaining to him as prime minister, for better or for worse, his premiership will have been defined by the Iraq war and thus, by extension, his strange relationship with Mr Bush.

In acting on Mr Clinton's advice, Mr Blair was well aware that the new president took a narrow, chauvinistic view of America's self-interest and was surrounded by conservative ideologues who were scornful of precisely the kind of idealistic multilateralism he set such store by. Typically, Mr Blair was undaunted by this unpromising state of affairs. As he might put it, ideology is just not one of his hang-ups; and, back then at least, his confidence in his own ability to charm and persuade was boundless. If there was common ground, Mr Blair was sure he could find it. As for Mr Bush, the test he set for his British opposite number was one of character. Would Mr Blair play straight by him? Was he someone who could be counted on when the going got rough? It was to the credit of both men that in spite of their differences and the scepticism of their aides, they were determined to find a way of working together.

September 11th, Afghanistan, Iraq and then Iraq's testing, difficult aftermath have forged a real bond between the two men. But the political benefits have been horribly lop-sided. Mr Blair has paid a high price at home for his closeness to an American president who most Britons, even Conservatives, find it hard to relate to. Under any conditions short of a full-blown United Nations mandate, the Iraq war would have been controversial, but it has been infinitely more so because it is seen by so many people in Britain, not least affronted Labour MPs, as Bush's war.

Collateral damage

The war was always destined to play strongly in this presidential election. But the insurgent Howard Dean's candidacy would have caused Mr Blair fewer embarrassments than John Kerry's. Mr Dean's outright and vehement opposition to war, combined with the fact that he looked a certain loser, would have made it relatively easy to ignore him. But Mr Kerry is a different matter. Because of his support for the war, when Mr Kerry holds Messrs Bush, Cheney and Rumsfeld to account for having distorted intelligence and exaggerated the threat, his words carry more sting—both for Mr Bush and Mr Blair.

When Mr Kerry lambasts Mr Bush's “sham commission” to examine the intelligence failures, the Butler committee set up by Mr Blair for the same purpose at once comes to mind.

What's even trickier for Mr Blair is that he actually agrees with a good deal of Mr Kerry's critique. When Mr Kerry accuses the administration of having scuppered any possibility of a more multilateral approach towards Iraq through its arrogant disdain for potential allies, he is saying only what the British Foreign Office thinks. When he complains about the disastrous lack of planning for dealing with the problems of post-war Iraq, he could be echoing the frustrations of British ministers and officials. Mr Blair refuses to criticise Mr Bush, even in private. But there is little admiration and absolutely no affection for either Mr Cheney or Mr Rumsfeld (a sentiment fully reciprocated), who are seen as the cause of much that has gone wrong. Unfortunately for the prime minister, there is not the slightest sign of Mr Bush losing confidence in either.

A Kerry campaign that gained momentum because of increasing disillusion over Iraq would generate unavoidable collateral damage on the other side of the Atlantic. It would signal that Mr Blair was more electorally vulnerable than had previously been thought. And while Mr Kerry will be careful not to sound too shrill, he will provide all the excuse Mr Blair's critics need to drag the prime minister away from the domestic agenda on which he must fight the 2005 (or 2006) election. Nor does one have to be a cynic to realise that Mr Kerry's chances will be boosted by the thing that Mr Blair must dread most of all: a spiral into chaos in Iraq for which he too would be blamed.

Yet paradoxically, for all Mr Blair's and Mr Bush's at times seemingly intertwined fates, the election of President Kerry would be a huge relief for Mr Blair, particularly for the effect it would have in helping to purge some of the poison from relations with his own party. Mr Kerry is no Bill Clinton—the nearest thing in Mr Blair's political life to a role model. But, Iraq included, he and Mr Blair have a largely shared view of the world—one that is very different from Mr Bush's.

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America's corporate trials

The case against the prosecution

Feb 26th 2004 | NEW YORK
From The Economist print edition

AFP

Have America's efforts to prosecute white-collar crime been wholly beneficial?

THE long white tent outside the federal courthouse in Manhattan, where the trial of Martha Stewart is drawing to a close, has begun to sag a bit recently. Not so the appetite for the show inside. At the entrance, an upscale crowd of glossy-maned TV correspondents and glamorous types who look like they may be the lifestyle-guru's friends, queue to get in. Every morsel of action is thoroughly digested in the hall outside the courtroom. (This week's treats included some devastating testimony from the former lawyer of the assistant to Ms Stewart's former stockbroker.) Perhaps New York's cash-strapped courts should start selling tickets.

This week, in a new federal court building nearby, jury selection began for the trial of John Rigas and his two sons, Timothy and Michael, all former top officers at Adelphia, a cable-TV company that went bust in 2002 amid accusations of accounting fraud. The same building that houses Ms Stewart may soon host the trial of Scott Sullivan, the former chief financial officer at WorldCom, a telecoms firm, and the retrial of Frank Quattrone, an ex-investment banker at Credit Suisse First Boston whose first trial for obstruction of justice ended in a mistrial last October. In another Manhattan courthouse, city prosecutors in the trial of Dennis Kozlowski have droned through months of evidence in their exhaustive efforts to convict the former Tyco boss of looting his company of hundreds of millions of dollars.

On February 19th, meanwhile, prosecutors arrested Jeffrey Skilling, who ran Enron until his resignation four months before it collapsed in December 2001. Sources close to Mr Skilling suggest that, due to the complexity of the case, his lawyers may need up to two years to prepare his defence: the trials of America's celebrity ex-bosses may stretch well into 2006.

The zeal of America's prosecutors has been impressive. Since the creation of a special Department of Justice (DOJ) taskforce to tackle corporate fraud in 2002, federal prosecutors and investigators have charged 642 defendants in 290 separate cases with white-collar crimes, and secured convictions or guilty pleas from 250 of them. (A more usual figure for the feds is about 50 such convictions a year.) At the

prodding of the DOJ, the United States Sentencing Commission has raised penalties for corporate fraud twice, in January and April 2003, nearly doubling the base penalty for some crimes. If convicted on all counts listed in his 57-page indictment, Mr Skilling faces over 300 years in jail.

Perhaps most extraordinary of all for an administration periodically accused of being too close to its corporate benefactors is how its prosecutors have gone after company bosses. Federal prosecutors attached to a special Enron taskforce have plodded through a two-year inquiry, securing several guilty pleas from underlings along the way in their attempt to get to Mr Skilling. Enron's former chairman, Kenneth Lay, may now feel more confident that prosecutors do not intend to charge him with any crimes. But, in all, criminal charges have been brought against ex-bosses from 25 different firms, ranging from American Tissue, which makes paper products, to Lason, a document-management firm.

Over-zealous?

Two worries persist. The first is that, with the media, the public and politicians demanding that heads roll, the government has pursued its prosecution too zealously. The DOJ says that the fraud task force helpfully insulates prosecutors from political pressure. The charges, however, suggest that the record is mixed. Ms Stewart, for instance, is defending herself against the accusation that she committed securities fraud by declaring to her shareholders that she was innocent of insider trading. It is not just that this charge is based on a novel legal theory: this week, the judge in her case, Miriam Goldman Cedarbaum, considered whether to toss out this charge altogether. The government has not actually charged Ms Stewart with insider trading at all, but of obstructing justice. Thus, prosecutors allege a cover-up of a crime that may never have been committed.

Also troubling are the somewhat vague and sweeping charges brought against Mr Skilling. The government's core allegation is that Mr Skilling used accounting trickery, false public statements and other devices to inflate Enron's share price, thereupon cashing in his share options. Despite the recently-secured co-operation of Andrew Fastow, Enron's former finance chief, however, the charges against Mr Skilling seem remarkably free of details establishing exactly how he directed this massive alleged fraud. (Did Mr Fastow not have much dirt to dish, after all?) In sworn testimony to Congress in February 2002, Mr Skilling pointed out that he left Enron owning 940,000 shares in the firm—far more than he had sold in the months prior to resigning, and about as many as he held at the start of 2001. Moreover, judging by this indictment, prosecutors could have brought similar charges against any number of other bosses from the 1990s: at the heart of almost all of the hundreds of private shareholder suits filed in America recently lies a similarly sketchy characterisation of what went on in the executive suite during the great boom.

Worse, selective prosecution may not serve the wider interests of reform. Unarguably, it is right and just to pursue those whom the government thinks have broken the law. But one consequence may be that it helps to buttress the “rotten apples” theory of corporate misbehaviour, in which a few naughty executives are alleged to have damaged the reputation of all their peers. Mr Skilling's lawyers may have had a point when they said last week that the charges he faced were really “a general indictment of corporate business.” The alleged “looting” at Tyco and Adelphia, meanwhile, has at least something in common with the explosion in executive pay and perks elsewhere.

The danger is that, by throwing a few bosses to the lions, the government will satisfy the public's thirst for blood and thus ease pressure for deeper, system-wide reform. Indeed, some critics argue that this was the government's intention all along, or—if that seems a bit too conspiratorial—at least explains its instinct to come down so hard on corporate crooks. Prosecutors like to justify what they do by pointing to how it deters future misbehaviour. Is that really the lesson America's future bosses will draw from these celebrity trials? Already, most bosses seem to have convinced themselves they are nothing like Ms Stewart or Messrs Kozlowski and Skilling. The theatre in lower Manhattan no doubt does provide entertainment for the masses. How the daily updates on Martha's wardrobe help the wider cause of corporate reform, however, will probably remain something of a mystery.

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South Korea's chaebol

A Sovereign remedy?

Feb 26th 2004
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AP

Foreign investors take on big business

IT HAS been an in-and-out sort of week for Chey Tae-won, chairman of SK Corp and scion of one of South Korea's most powerful industrial families. First he was conspicuous for not joining three colleagues when they agreed on February 22nd to resign from the board of SK Corp, South Korea's biggest oil refiner. Then he was conspicuous three days later when he did resign from SK Telecom, a related firm and the country's biggest mobile-phone operator, along with three other directors including his younger brother, Chey Jae-won. The firms are all part of South Korea's third-biggest *chaebol*, one of the networks of family-controlled businesses that dominate the country's industry.

Two of the directors who resigned from SK Corp were among those convicted following an accounting fraud at one of the company's affiliates last year. Mr Chey (pictured above) was also convicted—he came out of prison last September after serving three months of a three-year sentence—but he has chosen to stay on until a shareholder meeting on March 12th, when he will face minority shareholders determined to remove him. It will help that he is no longer on the board of SK Telecom. Its shareholder meeting is the same day.

Sovereign Asset Management, a Monaco-based investment fund that owns just under 15% of SK Corp's shares, will lead the opposition to Mr Chey. Over the past year, Sovereign and other minority investors have protested in vain as SK Corp has helped to bail out a pair of affiliates within the SK Group. One of the affiliates, SK Global (now SK Networks), committed the accounting fraud that led to the conviction of Mr Chey and several other group executives. In December, SK Corp bailed out another affiliate, SK Shipping, after 200 billion won ($168m) went missing.

The shareholder meeting will be watched closely by other South Korean tycoons. Many who have not been convicted of fraud have nevertheless run their business empires with scant regard for the interests of minority shareholders. To ensure that they are not bulldozed in future, Sovereign and other investors are appealing to South Korean retail investors for help. Although foreign investors own more than half of the company now, at the end of December, the date of record for voting in the upcoming shareholder meeting, they held only 43% of SK Corp's shares.

The Chey family controls some 24%, through a network of affiliated holdings that is typical among the

chaebol; additional stakes held by banks, suppliers and others friendly towards the Chey family give it roughly enough to match the stake of the foreign investors. Sovereign thus hopes that South Korea's small investors will give it the swing vote on a series of amendments that it has proposed to SK Corp's articles of incorporation.

One of them would clearly spell doom for Mr Chey: it includes a call for “automatic termination of office in the event of criminal conviction carrying a prison sentence”. But the item at the top of Sovereign's list would, if passed, hold more sweeping implications for South Korean businesses. The amendment calls for the board to set up a separate committee to oversee related-party transactions—in effect, any deals with other parties in the SK collection of companies. This committee's unanimous approval would be required for any such deals to go through.

A spokesperson for SK Corp argues that Sovereign is trying to influence the direction of the entire company, despite holding only a 15% stake, and is therefore little different from the Chey family. There is an obvious distinction, however. Sovereign has not attempted to transfer trillions of won worth of SK Corp's assets to other firms within its investment portfolio.

Sovereign has won over a few valuable allies. SK Corp's labour union, which faced the dilemma of choosing between foreign capitalists and its own unpalatable managers, has come out in favour of the foreigners. To widespread surprise, Sovereign has also nominated five independent, and reasonably well-respected, South Korean business and political leaders for posts on the board.

In the media battle to win over the small investors, however, Sovereign has been largely outgunned. It did manage to launch a series of full-page advertisements in leading newspapers on February 9th. Since then, however, SK Corp has retaliated with a salvo of colour advertisements while Sovereign's agents have had a mysteriously hard time finding space in the country's biggest dailies—known for their pro-*chaebol* conservatism. Sovereign has instead settled for a guerrilla campaign on the internet, to which 70% of South Koreans have high-speed connections.

Will that be enough to convince small investors of the need for change? Han Seung-soo, one of Sovereign's board nominees, hopes that it will. As a trade minister, says Mr Han, he helped to open his country to imports; as the finance minister who oversaw South Korea's accession to the OECD, he helped to liberalise its financial markets. But to open his country to globalisation, he reckons he must now cross over to the private sector and fight for greater openness in the boardroom.

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Luxury time-shares

Homes away from home

Feb 26th 2004
From The Economist print edition

Jet-setting for the middling-rich

TAKING a holiday in one's lavish second (or third, or fourth) home was once the exclusive preserve of the very rich. No longer. Thanks to so-called “destination clubs”, the latest trend in the market for luxurious holiday homes, now even the middling-rich can spend their holidays jetting from one ritzy private home to another—all for less than the price of a real second home.

So goes the pitch of Exclusive Resorts and of Private Retreats, the two biggest firms in the business of peddling jet-set glamour at (relatively) low prices to an affluent clientele. Unlike traditional time-shares, in which holiday-makers purchase the use of apartments for a pre-determined time period each year, destination-clubs resemble posh country clubs. Members, after being vetted, pay a one-off, refundable joining fee of up to $500,000. Annual fees range from $12,000 to $16,000, depending on usage. This resembles “fractional ownership” of corporate jets, as peddled by firms such as NetJets, which offer varying degrees of access and use depending on what subscription a customer pays.

Holiday-club members get access to a selection of luxury properties, from ski chalets to beach houses and swanky yachts. Both firms boast portfolios of 60-70 properties, each valued at $3m on average. Concierges, personal chefs and even private jets can be thrown in. “It's the future of vacation ownership for those with means,” says Buck Blessing, a member of Exclusive Resorts and boss of Griffis/Blessing, a property company.

He is not alone. Private Retreats, in association with Abercrombie & Kent, an upmarket travel agent, claims to be near its maximum capacity of 400 (to maintain its ratio of six members to each property). Its even-pricier Distinctive Retreats club, launched late last year, already boasts 100 members. And big hotel groups such as Four Seasons are flirting with variations of this formula.

Exclusive Resorts, 50% owned by Steve Case, former chairman of AOL TimeWarner, has grown even faster. Since signing up its first client last March, membership has risen to over 470 members, with $10m in new deposits added each month. In December, the firm bought two smaller competitors.

According to the latest study by Merrill Lynch/Cap Gemini Ernst & Young, globally there are 7.3m rich individuals (with at least $1m in disposable wealth). The next step could be to launch clubs at different prices, say, $100,000 for the slightly-less-well-endowed or $1m for the fabulously wealthy. Both Private Retreats and Exclusive Resorts are eyeing Europe, where wealthy people like to take longer holidays than Americans.

But the revenue model, say some real-estate analysts, is tricky. Exclusive Resorts and Private Retreats have each had a positive cash flow from their first day of operation. But maintaining luxury houses is expensive; so is buying new properties as membership grows. Real estate is notoriously cyclical. Rising interest rates may hurt. Even so, the pickings should be rich.

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Luxury-goods companies and hotels

Brand extension, with jacuzzi

Feb 26th 2004 | MILAN
From The Economist print edition

Should luxury-goods firms go into the hotel business?

GIORGIO ARMANI is already one of the most diversified brands in fashion. As well as haute couture and every-day clothes, Mr Armani and his eponymous firm create scent, cosmetics, spectacles, watches and accessories. Dedicated followers of Mr Armani's minimalist aesthetics can buy furniture at Casa Armani, chocolate, other sweets, jam and even marmalade at Armani *dolce* and flowers at Armani *fiore*. There are Armani cafes and restaurants in Paris, New York, London and other cities. An Armani night-club recently opened in Milan. Now the great Giorgio is branching out further still. On February 22nd his firm announced a $1 billion hotel venture with Dubai's Emaar Properties, the Middle East's largest property developer. Mr Armani will be in charge of the design for ten new luxury hotels and four resorts, to be built in the next six-to-eight years.

Armani's is the boldest move so far by a luxury-goods company into the hotel business. But it is by no means the first. In September 2000, a hotel designed by Donatella Versace opened on Australia's Gold Coast. In February 2001, Bulgari, an Italian jeweller, announced a joint-venture with Ritz-Carlton, the luxury-hotel division of Marriott, to build six or seven hotels and one or two resorts. Bulgari and Marriott are each investing some $70m. The first Bulgari hotel, located immediately behind Milan's La Scala opera house, will (belatedly) open in May. Salvatore Ferragamo, an Italian shoemaker, has designed four hotels in Florence, his hometown. The latest Ferragamo hotel, the Continentale (see picture), opened in January last year.

Room with a shoe

Does it make sense for designers of luxury goods to go into a tricky service business? Hotels are not even a good hedge against the fickleness of the fashion world. Travel and luxury follow the same economic cycle. In the first half of last year both industries were in bad shape because of the war in Iraq, SARS and the rise of the euro. (Many luxury-goods firms are from euro-zone countries, but their revenues are mostly in dollars or yen.) In the second half of the year the two industries both started to recover, albeit timidly.

Armani and Bulgari say that their hotels are managed by outside professional managers, and that they are only in charge of making the hotels beautiful. Mr Armani considers hotels a logical extension of his aim of promoting his brand in all walks of life (can Armani toilet paper be far behind?). Rita Clifton, chairman of Interbrand, a consultancy, says that this strategy can work. A strong product, strong images and a strong experience, such as staying at a fashion designer's hotel, can combine to make a super-strong brand, claims Ms Clifton.

To fit the firm's luxurious image, Bulgari says that its hotels must be as upmarket as it is possible to be. Because small is considered more exclusive, Armani and Bulgari plan to launch mostly smallish five-star hotels. Armani's Dubai hotel, due to open in 2007, will be an exception, however, with 250 rooms. Bulgari's Milan hotel will have no more than 60 rooms.

Losing control of their brand is the biggest risk for luxury firms expanding abroad or venturing into a new line of business. Over the years, Pierre Cardin, Yves St Laurent and Christian Dior have each lost their good names by doling out licences all over the world to firms that did not deliver the appropriate quality. Calvin Klein's current troubles are related to the company's loss of control of the distribution of its wares in many countries.

Designers' hotels can create good publicity, as they have done for Ferragamo with its easily controllable properties in Florence. Even if Bulgari's hotels turn out not to make any money, the venture could be considered an expensive, yet effective, advertising campaign, says Antoine Colonna of Merrill Lynch in Paris.

Mr Armani's hotel plans are altogether more ambitious, and the danger of brand dilution much greater. Armani says that the management company for its hotel venture will be headquartered in Milan rather than Dubai, and that Mr Armani will be fully in charge of design. So far Mr Armani has managed to control his brand tightly despite dabbling in many different businesses. Hotels, however, are a bigger challenge than flowers and marmalade.

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Diamonds

Rumours are forever

Feb 26th 2004 | JOHANNESBURG
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De Beers, it is said, is trying to polish its reputation

Sharon Stone shows off her rocks

THIS week De Beers, the leading South African diamond group, said it hopes that talks with America's government on charges of price fixing will be concluded to its satisfaction. No doubt it does, but then it has been saying that for rather a long time. For nearly 50 years, De Beers, which produces more diamonds than any other firm, has been blocked from selling directly to the world's largest jewellery market by a lawsuit from America's Department of Justice (DOJ). The lawsuit alleges that De Beers runs an illegal cartel for the production and sale of diamonds.

Its global business is healthy—net profits rose by 11% in 2003, helped (paradoxically) by strong indirect sales in America. But the bosses and owners of De Beers have long said that they want the firm to be legally compliant there, if only so that its executives can visit New York without risk of arrest.

There are some reasons to expect that to happen “in the not terribly distant future,” according to some insiders. Both sides are said to be more hopeful than before. De Beers is increasingly keen to polish its image among consumers and governments. Fearing a boycott, it helped to draw up industry rules to stop the trade in “conflict diamonds” that has paid for many of Africa's wars.

The owners of De Beers, the Oppenheimer family, vocally support South African plans to put more wealth into black hands. In Botswana and South Africa, from where De Beers gets most of its diamonds, it treats workers with AIDS decently. Striking a deal now in America, perhaps with De Beers admitting some guilt and paying a fine, would help “prove that the old De Beers is dead and buried,” says one company official.

The concerns of the DOJ ought also to be easing. De Beers has rethought how it trades diamonds, and is facing stronger competition from rivals. It once accounted for nearly all world-wide sales of rough diamonds, from its own output and by purchasing and hoarding that of competitors. Now it accounts for barely half of sales, and relies mostly on its own output. Thus it should be less vulnerable to charges of price fixing. A separate private lawsuit against the firm in America, and smaller legal wrangles in the European Union, probably pose much less of a problem than the DOJ.

Another change could soon alter the firm's situation. The Oppenheimer family is said to be preparing to double its current 45% stake in De Beers, by buying the shares owned by South Africa's mining giant, Anglo American—which may need the money, judging by the mediocre results it announced this week. Though officially denied, undoing the messy ties between the two firms would make it easier to demonstrate that De Beers is independent and competitive: two qualities much admired by the DOJ's trustbusters.

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Semiconductors

The 64-bit battle

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Is Intel's flagship next-generation chip already doomed?

Get article background

THE computer industry loves a good bunfight, so everyone is enjoying the current battle between Intel, the world's largest chip-maker, and Advanced Micro Devices (AMD), its smaller rival. Intel is currently on the defensive. This week Hewlett-Packard (HP), a computer maker and a close ally of Intel, said it would use AMD's Opteron processor chip in a new line of powerful server computers. The news came just days after Intel grudgingly unveiled a new version of its Xeon chip, which mimics features of the Opteron. AMD, it seems, has Intel on the run.

At issue is the best way to move the industry from 32-bit to 64-bit chips. Except at the very high end and in some specialist niches, almost all computers are currently powered by 32-bit chips. As their name suggests, 64-bit chips can process data faster, in chunks twice as big. They also make possible computers with greater memory, since 32-bit chips are limited to four gigabytes (roughly, four billion bytes) of random-access memory. Just as the industry previously moved from 8-bit to 16-bit to 32-bit computers, the transition to 64-bit is inevitable in the long term. The question is how to manage it.

With Opteron, AMD's approach was to take an Intel-compatible 32-bit chip, and add special 64-bit extensions to it. The resulting chip is able to support more than four gigabytes of memory, and can run new, faster 64-bit software. Crucially, it can also run existing 32-bit software in the usual way. Intel's approach, in contrast, was to start with a clean sheet and design an entirely new 64-bit chip, called Itanium. The project is in fact a joint venture with HP, which began work on the chip in 1988. Since its launch in 2001, years late, Itanium has sold slowly: a mere 100,000 chips were sold last year. Itanium systems are powerful, but they are expensive and cannot run existing 32-bit software efficiently. To get the full benefit from Itanium, software must be extensively rejigged.

Fred Weber, technology chief at AMD, likens Itanium to Esperanto. Nobody wants to learn a new language, he says, no matter how elegant it is. Hence the appeal of AMD's chip, which offers cheap 64-bit power without compromising the performance of existing 32-bit software. HP's announcement that it will use Opteron chips, and Intel's announcement of an Opteron-like Xeon chip with 64-bit extensions, therefore appear to be very bad news for Itanium, and a vindication for AMD.

Intel denies that Itanium is doomed, however, with some justification. Itanium is intended to compete with other 64-bit chips (such as those made by Sun and IBM) at the very top end of the market, says Lisa Graff of Intel. That is a totally separate market from the low-end servers powered by Xeon and Opteron chips. Around 85% of servers sold cost less than $6,000. But the 15% that cost more account for 50% of server sales by revenue. Itanium is aimed at this low-volume, high-end market. HP, for its part, says that it remains committed to Itanium in its high-end systems.

Another factor in Itanium's favour is that its performance is expected to improve dramatically over the next few years, notes Dean McCarron of Mercury Research, a market-research firm based in Scottsdale, Arizona. By 2007, Intel expects Itanium and Xeon chips to cost about the same, but the Itanium chip will be twice as fast. In other words, Itanium will start at the high end, and will slowly move down towards the mass market. The trouble is that Intel's previous predictions about Itanium have been wide of the mark.

The big question now is whether Intel can maintain a clear distinction between its Xeon and Itanium product lines until Itanium's price comes down. Just because the Opteron and the new Xeon chips are 64-bit, Intel argues, does not mean that they compete with Itanium. There is more to a high-end chip

than just 64-bit support: such chips also need special reliability and availability features that Opteron and Xeon currently lack. The danger, notes Peter Glaskowsky of *Microprocessor Report*, an industry journal, is that AMD will add such features to Opteron, forcing Intel to respond in kind, cannibalising features from Itanium and adding them to Xeon. This would condemn Itanium to a high-end niche, or worse, render it redundant.

The fate of Itanium, in short, is still unclear and depends as much on the actions of AMD, HP and others as it does on those of Intel. “This is a chess game,” says Greg Papadopoulos, Sun's technology chief. But at least Intel now has a 64-bit insurance policy: if Itanium fails to move down into the middle market, Intel can push its Xeon chips upmarket instead.

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Volkswagen

The curse of Pischetsrieder

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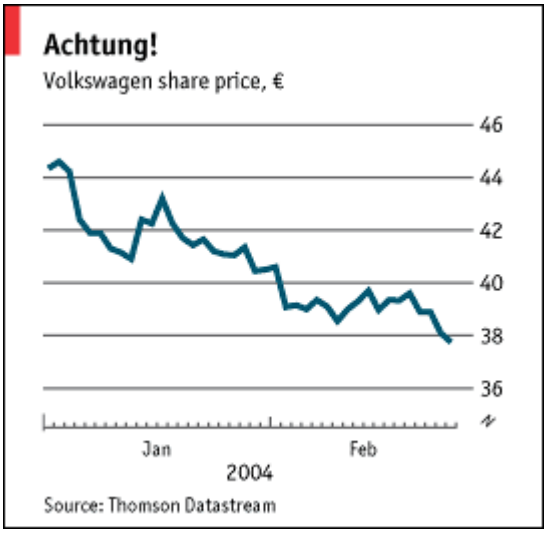
The wheels have started to come off the Volkswagen profit machine

IN MAY 1993, Bernd Pischetsrieder became chief executive of BMW. The Bavarian carmaker was riding high, its sporty saloons helping it to catch up with Mercedes-Benz, its German rival. The following January, Mr Pischetsrieder bought the Rover car group from British Aerospace. This was to prove a disaster. BMW failed to get a grip on the weak company; the acquisition cost it billions in losses and write-offs. Mr Pischetsrieder was eventually fired by an angry board.

Yet, in May 2003, he took over the top job at Volkswagen. Within a year, VW's fortunes have suffered their worst reverse since the firm's recovery in the early 1990s. Its latest figures imply a 95% fall in operating profits in the fourth quarter of 2003. The full horror will be spelled out on March 9th when the company will release its detailed results for last year. The market is braced for bad news. The main topic of conversation at next week's Geneva motor show is likely to be the "curse of Pischetsrieder". The normally gregarious Mr Pischetsreider is expected to spend the show trying to avoid the serious press, which should add to the fun.



Yet, to be fair, although VW's problems are surfacing on Mr Pischetsrieder's watch, they mostly pre-date him. The plunge in profits owes much to a one-off charge to cover restructuring in Brazil. Like the rest of the world's carmakers, VW piled in there with huge investments, just in time for the economic collapse of 1999. Sales have proved disappointing, and the market shows no sign of recovering.

Elsewhere, VW's new $90,000 luxury model, the Phaeton, has failed to impress drivers. This model was created under Mr Pischetsreider's predecessor, as was the new Golf, which has also struggled unexpectedly, and caused even more financial damage to the company.

The first Golf hit the European market in 1974, creating a new market for small sporty hatchbacks. The latest Golf offers all sorts of whizzy new technical stuff, but looks boring and costs more than most of Europe's mid-market buyers want to pay. So VW, long envied by rivals for the price premium its models commanded, is now offering discounts on its core product.

There are other problems. VW has done well in America in recent years, but the fall in the dollar hurts. The company's sales used to account for half of the Chinese market. Now that the rest of the global car industry has piled in there (just like Brazil ten years ago), VW's market share has dropped to around one-third amid a price war.

The fact that the state of Lower Saxony owns one-fifth of VW's shares makes it politically awkward to fire workers or to shrink capacity when times are tough. So it needs huge sales to keep its huge factories profitable. The traditional way to get them has been to make many different models (sold as Seats and Skodas) using the same mechanical and body underpinnings. But lately the differently badged models clustered in the middle of the market have simply cannibalised each other's sales. VW still dominates the European market for middle-sized cars, but this segment is slowly shrinking in favour of new niches, such as off-road vehicles and the kind of small multi-purpose vehicles pioneered by Renault, with its Megane Scenic.

For years the Lower Saxony government's stake, and a special law, protected VW from takeover. But now the European Commission is pressing hard for this barrier to be removed, since it breaches European Union corporate law. If things do not start to improve, VW might become a takeover target.

In truth, the curse of Mr Pischetsrieder is to have taken the top job at a successful carmaker just as its business was taking a turn for the worse, with built-in flaws coming to the surface like rust on an ageing Beetle. He must now lift that curse, fast.

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Face value

Selling the flag

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Can Keith Reinhard persuade the world to love American business?

IN A long career in advertising, Keith Reinhard's talent has been to find and promote the hitherto unknown virtues of products. In a memorable "You deserve a break today" campaign for McDonald's, it was the fact that people hungered for a better experience, not a better hamburger. In the "Like a good neighbour, State Farm is there" campaign, it was that car-insurance buyers wanted reassurance even more than a good price. Now, the chairman of DDB Worldwide is taking on the ultimate challenge: selling to the world the hidden virtues of America.

"I love American brands, but they are losing friends around the world and it is vital to the interests of America to change this," Mr Reinhard told a packed meeting of business students at Yale University on February 23rd. His basic argument is that something is amiss in the perception of America abroad, that this perception is economically damaging, that it must be changed and that it can be changed.

Last month, Mr Reinhard, along with many other senior executives in America's advertising industry and a few academics, formally incorporated Business for Diplomatic Action, a group aimed at finding a business-oriented solution to America's image problems. The seeds were sown after the terrorism of September 11th 2001, when Mr Reinhard heard George Bush speculate in a speech about the causes of loathing for America that existed around the world. It was a question, Mr Reinhard believed, that deserved the same kind of consumer research that he provided to his clients. Indeed, he thought, many of his American-based multinational clients could easily find themselves suffering from America's tarnished image.

His fears were soon reinforced by a study by DDB's researchers in 17 countries, which told a by-now familiar story. America, and American business, was viewed as arrogant and indifferent toward others' cultures; exploitative, in that it extracted more than it provided; corrupting, in how it valued materialism above all else; and willing to sacrifice almost anything in an effort to generate profits. Mr Reinhard commissioned more research. Street interviews were taped of individuals railing about American values. A survey of global brands last June by Roper ASW, a polling agency, showed a sharp drop in support for American brands. An updated survey, less at risk of being distorted by instant reactions to the war in Iraq, will be released in April at a summit-dinner for corporate bosses planned by Mr Reinhard. The results are not expected to be more upbeat.

Business for Diplomatic Action is the latest in a long series of attempts to do something about America's lousy image abroad. For instance, shortly after September 11th, Charlotte Beers, one of Mr Reinhard's peers on Madison Avenue, was confirmed as undersecretary of state for public diplomacy. She produced a $15m advertising campaign displaying Muslims who had successfully integrated into America. This changed few minds, not least because target countries mostly declined to show the campaign. Ms Beers quietly departed. The State Department then blew $4m on launching *Hi*, an Arabic language publication, aimed at young Arabs, that avoided polarising matters such as politics in favour of such inclusive themes as the, er, growing interest of Americans in Arabic poetry.

These failures do not daunt Mr Reinhard, who blames the involvement of the government. "Our experience is that when we try to do something with the government, it just turns into a pile of paper," he says. A private-sector initiative has important advantages, he says: better contacts, less bureaucracy and, perhaps most importantly, a longer time horizon in which to act.

Nor, judging by his career, is Mr Reinhard easily daunted. He had a difficult time breaking into advertising, only landing a first full-time job at 29. In the 1980s, he led a merger of two big agencies that succeeded despite many doubts. His management style is notorious. He enthusiastically repeats the firm's mantra (a twist on Franklin Roosevelt's great freedoms): employees should have freedom from fear and freedom to fail—at least one of which he may taste in his latest project. For even if the unpopularity of America abroad is bad for business—and the growing global sales of many top American brands, even in the Middle-East, are at odds with the surveys—what can be done about it?

After much debate, Mr Reinhard's group has decided not to produce (yet) an advertisement to promote the virtues of America. It has also stopped using the term, “Brand America”, fearing that it was too redolent of sales and spin. Instead, it is brainstorming about how to address three of the four main criticisms that it says foreigners have of America: the threat that global brands pose for local firms which lack equivalent marketing and managerial resources; the perception that America cares only about America; and the threat that American popular culture poses to local cultures and religions. (The fourth, foreign policy, is not something business can solve, says Mr Reinhard.)

UnAmerican activities

So far, big ideas are proving elusive. The group may publish online guides to behaving well abroad. Those firms that do a good job of this have been reluctant to share their techniques, says Mr Reinhard. They should do so. He also plans a “Day America listens”, during which American bosses will, he hopes, gather together to listen to the concerns of focus groups convened around the world. But unless he comes up with something more compelling, firms may find their own solutions, far removed from Mr Reinhard's collective ideal. Two examples came up at this week's meeting in Yale. Budweiser has been running hugely popular ads in Britain which wittily portray American men as crass and stupid. (How unfair!) And in Bahrain, it was alleged, Pepsi has gained market share by portraying Coca-Cola as the American soft drink and Pepsi as its local rival.

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International law firms

Trying to get the right balance

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London firms want to be more global; New York firms want to be more profitable. So far, the two are irreconcilable

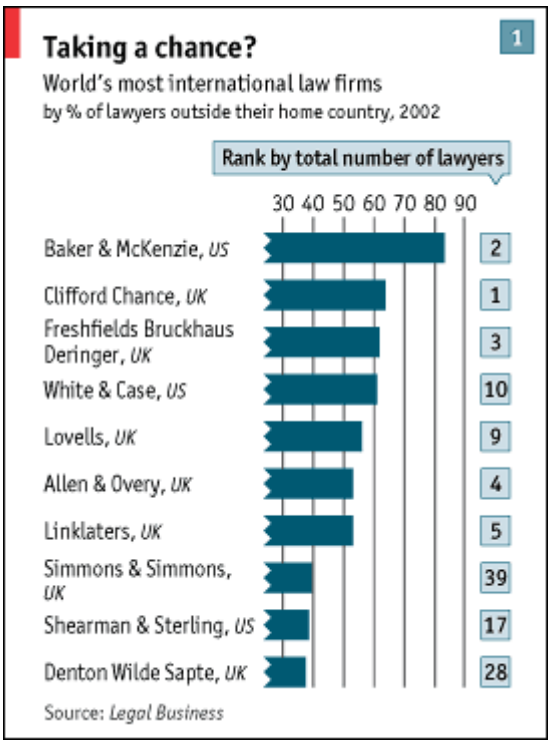
“WE'RE leading the way. Others will have to follow,” said the senior partner of Clifford Chance four years ago when the London lawyers merged with New York's Rogers & Wells and Germany's Pünder, Volhard, Weber & Axster. At the time, the three formed the world's biggest and most international law firm. But nobody did, in fact, follow their pioneering route, at least not on anything like the same scale.

The only proximate followers were the big accounting firms which had ambitions to build legal practices as global as their accounting businesses. “We are aiming to be one of the top global players in legal services in the next five to ten years,” said a managing partner of Arthur Andersen, a year or so before the firm ceased to be a global player in anything.

In the late 1990s, over-confident accounting giants thought they could take the legal field by storm thanks to their extensive global networks. But they did not snap up multinational companies' big deals, nor did they lure top lawyers to their firms. Today, sobered by their experience in the intervening years, all the remaining “Big Four” accountants are retreating from the legal arena, with KPMG the first to throw in the towel altogether.

Is it time then to abandon the idea of assembling a truly international law firm? Is commercial law such a different service to accounting, say, or advertising that it merits a very different industry structure, one characterised by small local specialists rather than big global generalists?

Non-intersecting circles



Not all firms have abandoned the attempt to become big and global. Multinational clients, they say, are clamouring for firms with a global reach. Cross-border deals are increasing, in Europe in particular where ten new countries are about to join the European Union. What's more, after the recent spate of corporate scandals, a slew of new rules on corporate governance calls for greater transnational legal expertise.

The drive for globalisation of the profession has been stymied by the different nature of the business in its two biggest markets—London and New York. These two cities dominate the world of commercial law. The ten biggest firms and the ten most international are all based in one or the other (see chart 1).

Each city has a small group of highly reputable firms whose list of blue-chip clients marks them out as special. In New York, this group is seven strong and known as the “Charmed Circle”. In London, it is known as the “Magic Circle” and consists of five leading firms, including Clifford Chance. These two circles, however, find it peculiarly hard to intersect.

For a start, the New York firms are markedly more profitable than their London counterparts. Nine of the world's ten most profitable firms (in terms of profit per partner) are based in New York (see chart 2). While internationalisation has led to an increase in size and revenue, it has not produced an equivalent increase in profits. Of the two British firms in the 20 most profitable, one of them—Slaughter and May—has deliberately chosen not to internationalise its operations. The other, Herbert Smith, has only a

quarter of its lawyers outside Britain. By contrast, Clifford Chance, Britain's leading international law firm with nearly two-thirds of its lawyers overseas, comes a poor 31st in the profit per partner league table.

At the time of its mergers it was Clifford Chance's ambition to rank among the top three firms wherever it practised. Yet its American strategy quickly ran into trouble. Several of the firm's big-name New York partners defected, and morale among its junior lawyers fell. After stagnating in the 2002-03 financial year, the firm's revenue is believed to have dropped sharply in the first half of 2003-04, with profits per partner down by as much as 15% according to the *Lawyer*, a trade magazine.

Peter Cornell, Clifford Chance's global managing partner, admits that the firm's American venture has proved more difficult than anyone imagined. “We reckoned we'd need three years to do it. Now we see it's going to take a bit more time,” he says.

The law of the asphalt jungle

The firm's biggest difficulty was its “lock-step” system of remuneration, espoused by most English firms. Under this system, profits are shared among partners according to a sliding scale of seniority. Clifford Chance's New York arm, Rogers & Wells, however, like most American firms, used an “eat-what-you-kill” system under which profits are shared among partners according to how much business each of them brings in.

To keep its American partners happy, Clifford Chance introduced a modified lock-step system in New York with fat bonuses for the most productive partners. But it did not do the trick. Since the merger, the firm has lost 19 of its top New York partners, including two stars. During that time, the firm points out, it has recruited twice as many new American partners. But the damage to its reputation and ability to retain top talent remains.

British firms will never succeed in America without adopting at least a modified system of “eat-what-you-kill”, says John Lynch of Latham & Watkins, a Californian firm that is expanding rapidly in Europe. A merit-based system of pay has always existed in America, but rewarding by results has become much more prevalent in the past few years. It is now beginning to undermine the traditional career path of gradual progress to the top.

Marc Bartel at Lovells, a British firm that used to harbour American ambitions, agrees that compensation is the core of the problem for British firms wanting to gain a foothold in the highly competitive American market. In the most profitable British firms, a senior partner may earn £1m ($1.87m) a year, but a top American partner can expect to earn almost twice as much. While some British firms are beginning to consider the introduction of a modified lock-step system, most are reluctant to go all the way down the American road. “Pure eat-what-you-kill can be very ugly,” says Hugh Crisp, who takes over in April as chief executive of Freshfields Bruckhaus Deringer, another of London's Magic Circle firms.

Freshfields is the third-biggest law firm in the world (with more than 2,400 lawyers) and the third most international. It has offices in 18 countries and some two-thirds of its lawyers are based overseas. However, its presence in America is still small. “We'd love an American merger,” admits Mr Crisp, “but not at a risk to our culture or quality.” Linklaters and Allen & Overy, two other Magic Circle firms once in search of American brides, fared no better than Freshfields in finding a suitable transatlantic partner.

One big problem is that none of the top New York firms is interested in a merger. Relatively small and hugely profitable, they are happy to go on exploiting the biggest and richest legal market in the world on their own. Why should they bother with the risk and expense of a merger with a less-profitable foreign entity?

With the exception of Baker & McKenzie (83% of whose lawyers are abroad), White & Case (60% of whom are abroad) and Shearman & Sterling (37%), few American firms have more than a quarter of their legal staff based outside America. All London's Magic Circle firms, by contrast, have more than a quarter of their lawyers abroad. Significantly, the seven Charmed Circle firms have shown a particular resistance to moving their operations away from their own back yard.

Some British firms, such as Linklaters, seem to have abandoned the idea of a transatlantic merger in favour of organic growth in America. But with American firms offering much higher salaries, it is difficult for newcomers to attract America's brightest. Apart from Clifford Chance, no British firm has so far managed to establish a significant New York practice.

Yanks abroad

A few New York firms outside the circle have, however, been pursuing an international strategy, spurred on both by the needs of their increasingly globalised clients and by growing competition from the British. Some are convinced they would miss out on lucrative deals were it not for their presence in several different markets. Weil, Gotshal & Manges (WGM), an American firm with about 1,000 lawyers in offices in America, Europe and Asia, committed itself to an international strategy 13 years ago. In 1991 the firm did not have a single lawyer in Europe; today one quarter of its staff is there.

WGM says its international expansion was well worth the effort. “Without our international platform, we could not have been involved in the Vivendi or the Yell deals,” says Stephen Dannhauser, chairman of the firm. In 2002, WGM advised Vivendi, a French media and utilities group, on the $1.7 billion sale of Houghton Mifflin, a publisher, to a consortium of private-equity firms. That same year, it also handled the flotation of Yell, an international-directories business, on the London Stock Exchange. In Vivendi's case the firm's Paris and New York lawyers worked together. In the Yell transaction, British and American teams co-operated.

Baker & McKenzie, one of the first American firms to pursue an international strategy actively, also believes strongly in the advantages of diversification. Baker has 12 separate practices—including antitrust, employment, tax and corporate law—each of which it runs on a global basis. This broad range of business, it says, helped it to ride out the bear market and the economic slowdown at the beginning of the decade. The firm “could limit the pain, because it is not a big player in capital markets,” says Christine Lagarde, Baker & McKenzie's chairman.

Others also benefited from being diversified. WGM kept busy with work related to distressed deals, troubled loans and corporate restructuring, while Cravath, Swaine & Moore and Sullivan & Cromwell, members of New York's Charmed Circle (and also financial-market specialists), continued to lead charmed lives thanks to their expertise in litigation, an especially lucrative area in times of trouble.

On the other hand, several firms did not make it through the bear market, either because they decided to grow at the wrong moment or because they were over-dependent on financial deals. Altheimer & Gray, a Chicago firm, for example, and Brobeck, Phleger & Harrison, a Californian firm, both went into liquidation last year. Some of London's Magic Circle firms that specialise in financial markets were also badly hurt by the stockmarket slump.

Horses and courses

Instead of buying up other firms around the world, Slaughter and May, Britain's most prestigious and profitable firm, has built up an informal network of what it describes as non-exclusive referral relationships with the “best of the best” firms around the world. All of them have agreed not to compete in each other's home jurisdictions, and to share documents, exchange lawyers, invest in joint developments, run joint training programmes and pool bills. All but two of America's Charmed Circle have signed up to the network. The aim, says Slaughter and May's David Frank, is to provide “horses for courses”—the very best lawyer for any particular client in any particular jurisdiction. Mr Frank maintains that no single firm acting alone can provide this.

There is evidence to suggest that this is what multinationals really want: the best legal horse for whatever litigious course they find they have to run. For example, when Gesparal, the French holding company through which Nestlé, a big Swiss food group, and the French Bettancourt family controlled L'Oréal, a leading cosmetics firm, was dissolved earlier this month, Nestlé was advised by a French firm, an expert in its local market, despite the fact that the transaction involved both Swiss and French jurisdictions.

At the same time, there are occasions when Nestlé will seek out cross-border expertise. If it were involved in a cross-border deal within the EU, for example, it would, it says, choose an international firm as an adviser. “In some cases we prefer international law firms, in others we go for local players,” says François Perroud, a spokesman for the company.

A growing number of legal areas are demanding cross-border expertise—the environment, shipping, aviation, antitrust, employment law, pensions, international arbitration, property rights, and so on. Small

specialist firms exploiting a particular niche can benefit from this. Schulte Roth & Zabel, a small New York firm, for instance, specialises in advice for hedge funds and opened a London office when a growing number of its hedge-fund clients set up shop there. But Brad Hildebrandt, chairman of Hildebrandt International, a consultancy specialising in legal services, says that large companies and financial institutions “are moving away from the ‘best firm in each location' approach to using a firm with an international capability for specific needs.”

It is becoming essential, particularly in Europe where there are EU directives as well as national laws, that one firm, or a network of close alliances, is able to pull all the threads together. “This is increasingly difficult to do,” says Mr Hildebrandt, “when no one firm has responsibility for the overall co-ordination and integration of the advice.” Baker & McKenzie, for instance, acts as intellectual-property enforcement counsel for Calvin Klein, a fashion designer, in countries in Europe and elsewhere. The firm fights counterfeiting and grey-market sales of jeans, underwear and sunglasses by prosecuting offenders in a number of jurisdictions.

If it ain't broke, don't mix it

British firms remain the strongest advocates of a global strategy. French law firms have stayed largely independent. Siméon et Associés, which has joined forces with Britain's Lovells, is an exception. Other top French law firms are big, diversified and predominantly French.

German law firms, on the other hand, have tended to follow the British path. In recent years they have started to merge among themselves and with British firms. Linklaters joined forces with Oppenhoff & Rädler, for instance, while Freshfields Bruckhaus Deringer is the result of a union between London's Freshfields and two top German practices.

As Americans are still giving them the cold shoulder, some British firms have started to become American, but in Britain. With 75 lawyers who have qualified in America on its payroll, Allen & Overy, a Magic Circle firm, employs more Americans in London than any American firm. Its ambition is to be “the best non-US American law firm”. This leads to a somewhat odd segregation at the firm's offices, where Americans work almost exclusively on American business and earn considerably higher salaries than their British colleagues. Despite the resentment this can create among staff, it is the way that Allen & Overy hopes to attract and keep top American lawyers.

Michael Goldhaber, a journalist with *American Lawyer*, a trade magazine, does not think a transatlantic merger wave is imminent. At the moment, he says, mid-sized, second-tier American firms, usually not based in New York, are buying medium-size European firms. For example, in January 2002, Chicago's Mayer, Brown & Platt bought London's Rowe & Maw and created the world's 14th-largest law firm. And in the same year New York's Fried Frank, a firm with about 540 lawyers, very nearly merged with Britain's Ashurst Morris, a company with some 700 lawyers.

Rumours of a merger of Freshfields and New York's Cleary, Gottlieb, Steen & Hamilton have been denied several times by both firms in recent years. As Cleary already has a presence in Europe, the firm has little interest in joining forces with Freshfields. A merger with Freshfields might make more sense for two other Charmed Circle firms, Davis Polk & Wardwell or Sullivan & Cromwell. But they are both hugely profitable. So, since there is no urgency for top New York firms to merge, any transatlantic union is likely to be among second-tier players.

Ultimately, more big global law firms will probably emerge to provide services for the international marketplace. But the legal profession does not look as if it will go the way of accounting, with just a few firms dominating the market everywhere. Alongside any global legal giants, first-rate firms that decide to remain at home—such as Cravath, Swaine & Moore in New York and Slaughter and May in London—will probably continue to thrive as long as they can remain pre-eminent in their niches.

Despite efforts at cross-border harmonisation of certain areas of law, such as taxation, there remain big differences between legal systems. For instance, in countries with systems based on English common law the protection of investors is much stronger than in those based on French civil law. On the other hand, the recent victory in a French court of LVMH, a luxury-goods group, in a lawsuit against Morgan Stanley, an American investment bank, over allegedly tainted reports by an equity analyst probably would not have happened in an English jurisdiction.

That is why the legal profession has remained relatively parochial while its best clients have become

increasingly global. Lawyers are currently catching up. But a small number of huge firms is unlikely ever to dominate the industry.

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The American economy

A phoney recovery

Feb 26th 2004
From The Economist print edition

Corbis

Drug addicts get only a temporary high. America's economy, addicted to asset appreciation and debt, is no different

Get article background

WHEN *The Economist* sounded the alarm about America's bubble economy in the late 1990s, what concerned us most was that share prices were no longer just a mirror that reflected the underlying economy, they had become its major driving force: soaring share prices encouraged a borrowing and spending binge. Although the stockmarket is lower today, in some respects the “economic bubble” has still not burst. The value of households' total wealth (in financial assets and homes) is well above its level before share prices started to slide in early 2000—and the American economy is more dependent than ever on asset appreciation.

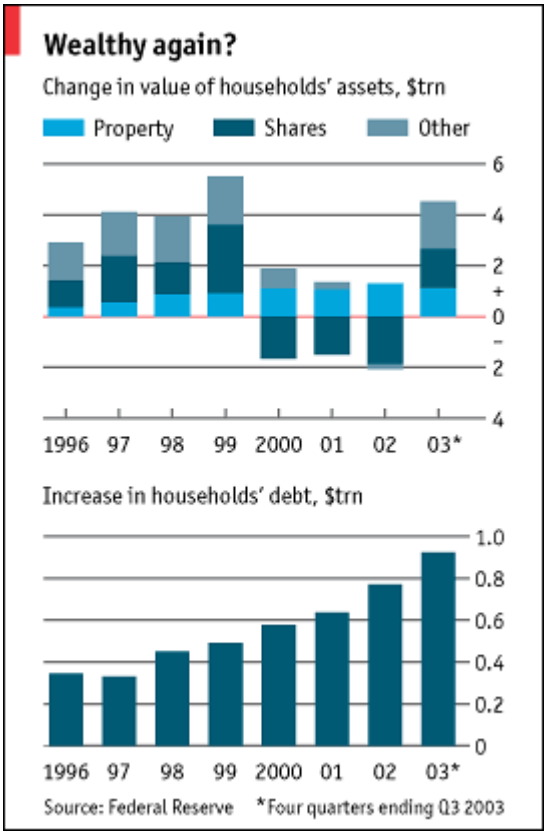
America's economy has survived the bursting of the bubble better than had been expected largely because policy-makers have pursued what is possibly the biggest fiscal and monetary stimulus in history. This week, even Alan Greenspan, chairman of the Federal Reserve, expressed concern about spiralling deficits. Tax cuts have given consumers more to spend. More importantly, historically low interest rates have inflated the prices of homes (and more recently shares again), encouraging households to pile up more debt.

This has allowed consumers to keep spending even as wages and salaries have stagnated. Strikingly, although GDP has grown by a robust 4.3% over the past year, wage income rose by barely 1% in real terms. According to Kurt Richebächer, an independent economist who publishes a monthly newsletter, wages and salaries have, on average, increased by 9% in real terms in the first two years of previous post-war recoveries, but have been almost flat over the past two years, thanks to the sickly jobs market. Despite this, consumer spending has continued to boom, at an annual rate of 4.7% in the second half of last year. The gap between stagnant wages and rising spending has largely been filled by tax cuts and rising asset prices.

Home sweet home

Since 1999, the rise in the value of Americans' homes has more than offset the loss on their shares—and the latter have also recovered about half their losses. As a result, economic growth

is once again being driven more by wealth than income. Over the year to the third quarter of 2003 (the latest figures available), the total value of homes, shares and other assets owned by households rose by $4.5 trillion, not that far off the $5.5 trillion jump in 1999 (see chart). Over the same period in 2003, personal disposable income increased by about $400 billion, to $8.3 trillion.



Moreover, compared with 1999, a bigger slice of those capital gains has, in effect, been turned into cash by households borrowing against the higher value of their homes. Total household debt increased by more than $900 billion last year, almost twice as much as in 1999. Mr Richebächer claims that America is experiencing the biggest credit bubble in history: total debt (public and private) has increased by a hefty $6.5 trillion since 2000.

Consumers can spend more than they earn by borrowing against their expanding wealth or running down savings, but for how long? If (still a big if) hiring by firms picks up sharply in coming months, pushing up incomes, then consumers will become less reliant on asset appreciation and debt, and the recovery will become more soundly based. Even so, their debts will hang around for a long while.

Although concerned about budget deficits, Mr Greenspan argued this week that the recent surge in household debt is relatively harmless for the very reason that it has been accompanied by big gains in household assets. According to such an interpretation, the drop in household saving, to only 1.5% of personal income in December, is no cause for alarm: households no longer need to save, because rising wealth in shares and homes will do it for them.

The snag is that the “wealth” being built up is partly phoney. In a recent report, the Bank of England argued that rising house prices do not create genuine wealth in aggregate. Those who have yet to buy a home suffer a loss of purchasing power, so rising prices redistribute wealth, they do not create it. More serious is that the price of homes or shares can fall, while debts are fixed in value. In the long run, the only way to create genuine wealth is to consume less than income, and to invest in real income-creating assets.

America (and other economies) have been enjoying a very different sort of wealth creation: the Fed is in effect printing it. Not only has it held interest rates unusually low, but the excesses of an asset-driven economy are being fuelled by artificially low bond yields (helped by huge purchases from Asian central banks trying to suppress the rise in their currencies) and hence mortgage rates.

Stephen Roach, the chief economist at Morgan Stanley, has long argued that the Fed is a “serial bubble blower”. Its cheap money is stimulating another round of irrational exuberance. America's property market certainly looks pricey: the ratio of house prices to incomes is currently at a record high, and about a fifth above its 30-year average. Share prices still look overvalued by many measures. Undaunted, investors have regained their appetite for shares with something approaching indecent haste. A net $60 billion was invested in American equity mutual funds in January, beating the previous record, which as it happens was set in February 2000, just before the stockmarket peaked.

Foaming asset prices are reviving the debate about whether the Federal Reserve should raise interest rates to cool down asset-price inflation. In January Mr Greenspan declared himself fully vindicated in his decision not to prick the stockmarket bubble in the late 1990s, but instead to wait for it to burst and then cut rates sharply to cushion the consequences. Mr Greenspan argues that it is hard to be sure what constitutes a bubble. Raising official interest rates sufficiently to prick what may or may not be one could itself trigger a deep recession. The Fed is also determined not to repeat Japan's mistake in the 1990s, by tightening monetary policy too soon.

That, however, runs the risk that the Fed is cushioning the impact of the bursting of one bubble by inflating another—in housing. This is hardly a sound basis for a sustainable recovery. So addicted has the economy become to debt, that this will make it harder for the Fed to raise interest rates when it needs to do so.

Other central banks seem to be breaking ranks with the Fed. Officials at the European Central Bank, the Bank of England, the Reserve Bank of Australia and the Bank for International Settlements (the central banks' central bank) have given some support to the view that monetary policy should sometimes lean against a rapid growth in asset prices and build-up of debt, even if consumer-price inflation is low. The Bank of England and the Reserve Bank of Australia both recently raised rates because of such concerns.

The current dilemma for the Fed is that inflation is presently too low for comfort, which argues for holding interest rates down. But low interest rates, in turn, risk further fuelling asset-price inflation. Still, a small rise in interest rates would still leave monetary policy very loose, while serving as a warning to investors and homeowners that shares and house prices cannot keep rising for ever.

In a recent article in the *Wall Street Journal*, Otmar Issing, the chief economist at the European Central Bank, argued that central banks cannot afford to ignore asset prices. This, he said, is one reason why they should keep a close eye on excessive growth in money or credit as well as on their inflation target. He also suggested that central bankers should avoid contributing to unsustainable collective euphoria and should perhaps signal concerns about asset values. Mr Greenspan, alas, shows no sign of taking his advice.

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Standard Chartered

Risky business?

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From The Economist print edition

Standard Chartered needs to get aggressive or get a partner

IT HAS been a trying week for Standard Chartered, a British bank that operates mainly in emerging markets. On February 21st, its biggest shareholder, Khoo Teck Puat, a Singaporean tycoon, died, leaving his 13.4% stake scattered among 14 children who may (or may not) feel like holding on to it. Standard Chartered also lost out in the bidding for a large chunk of KorAm, a Korean bank, to Citigroup, rattling its strategy for breaking into South Korea's consumer-finance market. The stockmarket's reaction? Standard's shares have gone up.

Why? Because, despite profits that grew by 22% last year, this bad news makes Standard Chartered a more likely takeover target by Citibank, Barclays, J.P. Morgan Chase, or indeed by any of myriad banks whispered to be sniffing around. The bank has been a takeover target since at least 1986, when Lloyds, another British bank, tried to snap it up (only to be thwarted by, among others, the late Mr Khoo).

AP

They need a credit card

The bank is snugly ensconced in most big markets in Asia (where it makes most of its profits) thanks to deep roots stretching back to the days of the British empire. This includes countries such as Malaysia that are effectively shut to new entrants because of a tangle of restrictions. With Asia growing rapidly richer (and its population waking up to the joys of credit cards, mortgages and the like), and with growth in their own economies difficult to come by, big banks from rich countries want to expand in the region.

Although Standard Chartered's bosses seem confident that they can go it alone, others are not so sure. They point to Standard Chartered's failed bid for KorAm, in which it had a 9.8% stake and which was meant to be a springboard into South Korea—Asia's biggest consumer-banking market—as evidence that the bank may struggle against newly aggressive rivals with deeper pockets and bigger balance sheets.

Deep pockets may matter more than they used to because banks with available cash will find it easier to snap up smaller rivals. These are more readily available now that many countries are relaxing their ownership restrictions. In Thailand, for example, the government wants to consolidate its banking system, and the country's stock exchange has toured the world touting its banks to foreign investors.

But Standard Chartered's real problem may be that it went on the acquisition trail too early and too expensively. In 2000, for example, it bought Chase Manhattan's credit-card portfolio in Hong Kong, just before its economy collapsed. “They have no acquisition strategy, no vision beyond the fact that they've been in Asia forever,” says a Hong Kong banker. He points to Standard Chartered's sale in January of its stake in Bank of China, once viewed as a platform for expansion into China, even as rivals such as Citibank and HSBC have snapped up stakes in Chinese banks. With big banks' interest in Asia piqued, competition will only grow fiercer.

Not that Standard Chartered has been entirely risk averse. It has been expanding organically to areas where, on the face of it, others would fear to tread. It is growing quickly in the Middle East and South Asia; is re-entering South Africa; and has a big presence in Pakistan and Sri Lanka, neither bywords for political stability. Earlier this year, it even opened branches in Kabul and Baghdad.

But the risks involved are lower than they seem. As the bank itself points out, its new offices in

Afghanistan and Iraq were driven by demand from aid bodies and governmental organisations. Elsewhere, most of its business involves lending to government agencies, banks and what one analyst calls “Dick Cheney money”(international contract work). The bulk of the bank's profits in the Middle East and South Asia come from the stable and wealthy United Arab Emirates.

Although Standard Chartered specialises in emerging markets, paradoxically it may be too conservative. And it does not have the strategy, aggression, clout or ballast, provided by more stable profits from rich-country operations, to make a decent fist of these. The bank seems likely to fall prey to a bigger, hungrier beast.

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New York Stock Exchange

A bleak future

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From The Economist print edition

The fate of the New York Stock Exchange is in the balance

THE New York Stock Exchange (NYSE) is fighting for its life. Over the past five months public-relations disasters have flowed thick and fast. They began when the exchange's former chief executive, Richard Grasso, left with a lot of its cash and even more of its reputation. As if that were not bad enough, a scandal has escalated over the exchange's specialist firms, which make prices in shares. Over the past week, the five biggest of these agreed to settle with the Securities and Exchange Commission (SEC), for $240m.

Damaging as they are, none of these problems is potentially as devastating to the exchange as a fight that it is now having with the SEC over an obscure provision in securities law known as the trade-through rule. This requires trades to be channelled to the market offering the best price, even if a trader wants to transact business elsewhere more quickly. The elimination of this rule could well mean the transformation of the NYSE into a fully electronic exchange—if it survives at all.

AP

Thain reliever

The fight is also so bitter because the ramifications are so profound, perhaps every bit as important as the scandals over wretched equity research, corrupt underwriting by investment banks, and the many other outrages that have engulfed Wall Street in recent years. This is because much of the money made and lost on Wall Street has more to do with transaction costs than with the cleverness of investment ideas. Investors earn, on average, what the market earns, minus what is frittered away.

The amounts that are squandered could be huge. Trading at the second-best price would add billions of dollars a year in trading fees, reckons the NYSE. Even its competitors do not dispute this, though naturally they have a different view of where the best prices are to be found.

This is why the trade-through rule is so important. The rule is an outgrowth of reforms instituted decades ago to protect regional exchanges from the NYSE. Ironically, it now protects the NYSE from electronic upstarts. Under the rule, the NYSE must get a trading order if it has posted a better price. It then has 30 seconds to confirm or reject the transaction. In financial markets, 30 seconds can seem a lifetime.

The rule allows the NYSE to see almost every transaction and retain those that it wants. That, in turn, gives the exchange extraordinary volumes, which in turn allows it to provide better prices, even though the costs of running such an antediluvian exchange are high. If the rule were to disappear, so too would the liquidity, asphyxiating the NYSE.

On February 20th, a congressional sub-committee on financial services held a rare hearing in New York. Its chairman, Richard Baker, left little doubt that he thought the NYSE obsolete and the trade-through rule anti-competitive. Other members of the committee were more in favour of the NYSE, though mainly out of caution about tinkering with a system that worked reasonably well. On February 25th, in a 300-page document, the SEC proposed preserving the trade-through rule, but giving the NYSE much less time to accept or reject an order. Crucially, it also proposed giving customers the right to waive the rule.

Under pressure, the NYSE has brought in a new chief executive, John Thain, and rapidly restructured. It has promised increased electronic access to customers and other exchanges, much reducing the time it

takes for trades to be executed. New software will help, it says, to block trading abuses. Specialist firms supported these changes, as did floor brokers with big clients who need orders carefully managed.

But all on the exchange are opposed to the opt-out provision. So, oddly, are some big investors. Vanguard, a big mutual fund company that is more concerned with costs than most, wants the NYSE to become more automated, but thinks the rule should be kept, believing that it creates deeper markets. The NYSE's cause is also helped by fears within the SEC that America's equity markets might go the way of its fragmented bond markets, in which trading is expensive for retail investors.

Ironically for an exchange that is often seen as a symbol of plutocracy, scrapping the trade-through rule might damage small investors most. Their brokers have a duty to provide the best price, but this is almost impossible to enforce, and there are often inducements to trade on inferior markets. But does the cost of the present rules to big institutional investors—which also invest money for millions of small investors—outweigh the benefits to people who invest for themselves?

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German stock exchanges

Swabian gadfly

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From The Economist print edition

A small exchange irritates a big one

DEUTSCHE BÖRSE, a Frankfurt-based stock exchange with global ambitions, is trying to swat a gadfly in its own backyard. It may succeed only by raising some of the same governance issues that threaten the future of the New York Stock Exchange (see article).

Five other stock exchanges still operate in Germany, but only one of them, in nearby Stuttgart, does a good enough job to irritate the Frankfurters. The Stuttgart exchange has over 80% of the retail market for warrants, or securitised derivatives, a huge and growing business among private investors. For the outlay of a few euros, German punters can bet on the 35,000-odd warrants listed on everything from currencies to gold.

The issuers of these securities are big banks, such as Citibank or Deutsche Bank. But they all use Stuttgart because, since 1999, a single broker there, Euwax, has nurtured a business with no serious rival. Last year it made €21.7m ($27.2m) in pre-tax profits.

In September, Deutsche Börse tried, half-heartedly, to regain some lost ground. It launched Smart Trading, a direct imitation of Euwax, with the support of some big intermediaries. So far, the punters have stuck with Stuttgart.

Hence the Frankfurters are turning up the heat. They are quietly suggesting that a market run by a single specialist broker, which since February 2003 has had the same majority owner as the Stuttgart exchange, does not smell quite right. With only one broker, for example, how can the exchange ensure that customers really do get the best price? Stuttgart retorts that if clients were not getting a good deal, they would go elsewhere. As long as Germany's stock exchanges are supervised by their regional governments rather than the federal watchdog, BaFin, tougher questioning on such issues is unlikely to come from above, absent a state prosecutor as energetic as New York's Eliot Spitzer.

Frankfurt can probably only win by showing that it can beat Stuttgart on price and service. Frankfurt's five specialist firms are already committed to making prices finer than Stuttgart's. There is another option: Deutsche Börse could make Stuttgart an offer it can't refuse, and buy Euwax outright. Given the implacable rivalry between German states, Stuttgart will be part of Germany's financial scene for a while yet.

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Japanese inflation-linked bonds

A novel idea

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From The Economist print edition

Deflationary Japan issues its first inflation-linked bonds

WHEN a country has been trying unsuccessfully to beat deflation for more than half a decade, issuing an inflation-linked bond may seem a rather bold idea. Yet Japan will auction ¥100 billion ($920m) of ten-year inflation-linked government bonds, its first such issue, on March 4th. For the Ministry of Finance, which issues the government's ballooning debt, the move is the latest effort to diversify its funding sources. It plans to issue a further ¥600 billion of inflation-linked bonds by the end of March 2005 to tap demand from pension funds, whose future liabilities rise with inflation, and who want a way to hedge them.

The bond also gives investors a chance to express their opinion on the expected rate of inflation in Japan over the next ten years, says John Richards of Barclays Capital in Tokyo. The auction's results will, in part, reflect which scenario they choose—ranging from the government's forecast that it will halt deflation by about 2006, to more pessimistic forecasts, including the OECD's, that deflation will persist longer, or even worsen. The latter will be a particular concern for buyers, since the principal is adjusted for changes in the consumer price index, and would shrink.

But the picture could be muddied by several things. Analysts reckon rising social security costs will almost certainly force the government to raise Japan's consumption tax, currently 5%, leading to a one-off jump in consumer prices during the next decade. A more immediate concern is that the auction is taking place less than four weeks before the end of Japan's financial year: investors could be wary of buying anything new that might produce accounting losses. And the market will be small and illiquid at first. The finance ministry has barred individuals, non-financial companies and foreign hedge funds, among others, from buying its new bonds.

For the Bank of Japan, the introduction of inflation-linked bonds should be mostly good news—as long as it starts to win its battle against deflation. Naka Matsuzawa, an analyst at Nomura Securities, says that, in future, the inflation expectations that can be stripped out of the bond could provide a signal for the central bank to change monetary policy. Perhaps best of all, Japan's central bank now has a hedge against the very inflation it is trying so hard to create. For, ironically, the central bank is among the biggest buyers of fixed-rate government bonds, whose value would fall sharply if deflation ended.

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India's foreign-exchange reserves

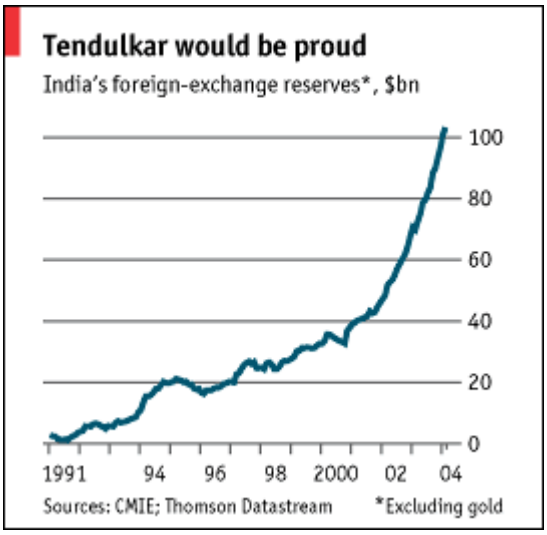
Soaking it up

Feb 26th 2004 | MUMBAI
From The Economist print edition

Too much of a good thing?

AMONG the Asian financiers of America's current-account deficit, the Reserve Bank of India is still small fry. India's foreign-exchange reserves, which it manages, have reached $103 billion. That is not a lot compared with Japan's $730 billion and China's $403 billion. But in a country that ran out of money in 1991, India's reserves are both a comforting cushion and a badge of recent economic strength. As elsewhere, however, the rapid build-up of foreign-exchange holdings—which have doubled in the past two years—brings some difficulties of its own.

On February 23rd, the Reserve Bank announced that it had reached agreement with the Ministry of Finance on a proposed solution to one of them: the need for new government debt instruments to mop up ("sterilise") the rupees sloshing around the market when it intervenes to buy foreign exchange. A "market stabilisation scheme" will make available up to 600 billion rupees ($13.3 billion) in new government securities that the bank can issue.



This follows months of head-scratching, and is seen as the best of some unappealing options. One—not to intervene—was ruled out. The rupee is under upward pressure. Thanks to a strong stockmarket, booming exports of services, and high interest rates, foreign currency has poured in.

In the 1990s, the rupee was allowed to slide against the dollar, by about 5% a year, which kept its value fairly stable in real terms. Since 2002, however, it has been appreciating, to the chagrin of some exporters. Even the super-competitive information-technology firms complain about the strong rupee. So India is unlikely to allow the rupee to climb much, especially while China resists revaluing the yuan.

The idea of "unsterilised" intervention, which would lead to an increase in the rupee money supply, was also given short shrift by a Reserve Bank working committee in December, because of its "undesirable expansionary effects". Sterilisation, however, presents other difficulties. The Reserve Bank is running out of government securities to sell. In the past year, while its foreign-currency holdings have climbed from 71% to 87% of its total assets, the rupee securities on its books have fallen from 1,052 billion rupees-worth a year ago to 353 billion rupees-worth.

Hence the need for the market stabilisation scheme. The Reserve Bank contemplated issuing securities of its own, as many other central banks, including China's and South Korea's, have done. India's, however, worried that it could strain its own balance sheet and lead to confusion in the market, where there would be two competing types of sovereign debt.

More government borrowing, on the other hand, would add to India's already yawning fiscal deficit—some 9-10% of GDP if state debt is included. For that reason, the "market stabilisation" bonds will be earmarked as such, and the government will keep the proceeds in cash at the Reserve Bank. So the deficit will increase only by the amount of the interest payments.

Some economists, however, argue that sterilisation is too expensive. The Bank's foreign-currency assets earn far less than the yield on Indian government debt. Mihir Rakshit, an economist at ICRA, a credit-

rating agency, estimates the gap at about four percentage points, and so the cost of holding, say, $60 billion in unnecessary reserves is $2.4 billion a year.

Many would agree with Mr Rakshit that, covering some 16-17 months of imports, India's reserves exceed its needs. How to run them down is problematic. Still, it is a better problem to have than the one faced by many developing countries: seeing them run out.

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Lazard

A poisonous mix

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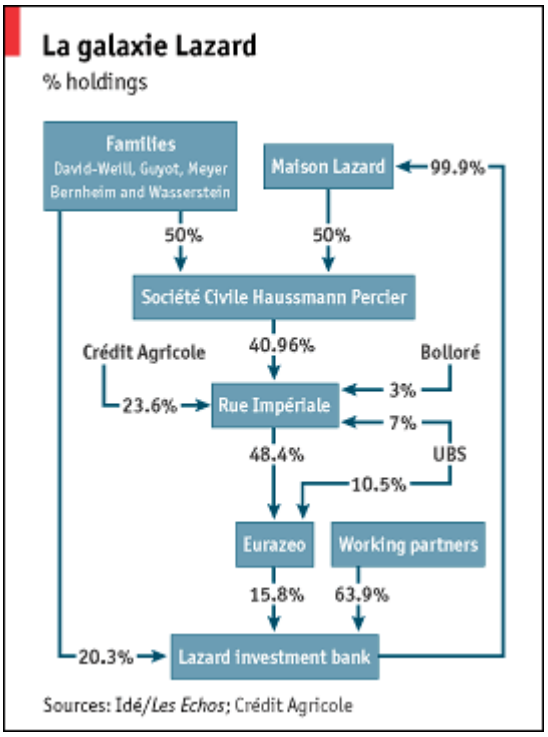
Internal squabbles at Lazard

WHEN Bruce Wasserstein took over as Lazard's new boss in January 2002, Europe's last remaining big investment bank in private hands was in dreadful shape. In the last years of the reign of Mr Wasserstein's predecessor, Michel David-Weill, Lazard lost business as top bankers left in droves. To restore the bank's fortunes, Mr Wasserstein, a veteran dealmaker, promised to hire the best investment bankers, to expand into new businesses, and even to move Lazard's drab London offices to somewhere posher.

He was also determined to put an end to internal battles between Lazard branches in London, New York and Paris. At the first meeting of all the Lazard partners (many of whom had never met each other), he declared an end to internal strife. Alas, without luck. Two years into Mr Wasserstein's rule, internecine battles are still raging and shareholders are revolting. Partly to calm them, Lazard's ridiculously complex ownership structure will be simplified a bit on March 5th.



The conflict at Lazard is similar in some respects to endemic problems between well-paid investment bankers and their long-suffering shareholders. But at Lazard the problems have been made worse because the firm's traditional bankers, who have built client relationships over many years, have clashed with a bunch of brash new American colleagues, who tend to push deals aggressively regardless, claim traditionalists, of their clients' interests.

Adding still more spice to the brew is that Crédit Agricole, France's largest bank, is an unhappy shareholder in Rue Impériale, a property-investment firm which owns a large stake in Eurazeo, a venture-capital firm which, in turn, owns a large stake in Lazard. On top of this, Mr David-Weill, a man not over-burdened with humility, is still chairman of Lazard, Rue Impériale and Eurazeo. He argued recently with Mr Wasserstein over what Mr David-Weill considers niggardly payouts to the bank's founder families.

The ownership structure of Lazard is so complex that even senior bankers at the firm do not understand it. But the latest ructions seem to be about shareholders trying to boost the value of their stake after Mr Wasserstein's spending spree. Though Eurazeo denied rumours that it was considering selling its 15.8% stake in Lazard, it confirmed on February 25th that it will decide whether to merge with Rue Impériale early next month. Such a simplification of Lazard's ownership structure should reduce the discount at which Eurazeo and Rue Impériale trade compared with the value of their underlying assets.

Mr Wasserstein has certainly been active. Since January 2002, he has hired 53 new partners. Many did not come cheap. These included Charles Ward, who joined from Credit Suisse First Boston; Jeffrey Rosen, from Dresdner Kleinwort Wasserstein, Mr Wasserstein's previous firm; and Gary Parr, now deputy chairman, who came from Morgan Stanley.

To finance the generous pay-packages of these high-profile hires, some $100m was taken last year from the outstanding capital that partners had invested in the firm, following another $80m the year before.

Shareholders accustomed to tens of millions in discretionary payments a year were paid a fixed dividend of 6%.

Still, the new talent seems to have brought more business to the firm, which has been back in the top ten in mergers and acquisitions. Lazard says that last year it was the sixth most important merger adviser globally, and the number two in Europe. Thanks to Mr Parr's 20-year relationship with Jamie Dimon, Bank One's boss, Lazard advised the bank in its takeover by J.P. Morgan Chase last year, earning it fees of some $20m. Mr Parr was also responsible for Lazard advising Manulife, a Canadian insurer, in its takeover of America's John Hancock, which was approved by shareholders on February 24th.

The question, of course, is whether Mr Wasserstein is more interested in pushing Lazard up the league tables in preparation for a sale than in stable, long-term profits for the bank from loyal clients. Some shareholders might not want to see a sale. The problem is that Mr Wasserstein's contract does not expire until the end of 2006. That leaves time for a lot of fighting.

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Economics focus

Heading for a fall, by fiat?

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The trouble with paper money

IS THE problem with the dollar only that it is falling? It has certainly been doing that. This month, it fell to $1.29 against the euro. This is its lowest-ever rate against the euro, and represents a decline of 19% since the beginning of 2003. In trade-weighted terms, the dollar has fallen less over the same period (15%), but mainly because Asian central banks have been intervening heavily to stem their currencies' rise against it. Of late, it has been wobbling around unconvincingly: America needs a weaker dollar to correct its current-account deficit. But given the dollar's role as a currency of last resort, some wonder if its decline heralds not just an economic adjustment by the United States, but a crisis of sorts in the value of paper money itself.

Money in its present form is a relatively new invention. For most of human history money meant either gold or silver, either directly, or indirectly by means of the “gold standard” which meant, at least in theory, that all paper money was backed by gold. Enthusiasm for the gold standard evaporated in the 1930s, when it made dreadful conditions worse. But it was adopted in a watered-down version after the second world war, when only the dollar was backed by gold. This arrangement made some sense, since America held three-quarters of the world's gold stock. But it came to an end in 1971, when inflationary pressures in America caused the country's manufacturers to become uncompetitive and forced the country off the gold standard. Since then the world has relied on “fiat money”, so-called because it is created by government fiat and is backed only by the promises of central bankers to protect the value of their currencies. It is the value of those promises that some are now questioning.

Promises, promises

Certainly, those promises have only been worth much in recent years. In the early years of fiat money, inflation took off, especially in America, in part because of the two oil shocks of the 1970s. This debased the value of the dollar, and the price of gold climbed from $35 an ounce to $850.

It was only in 1979, in his famous “Saturday night special”, that Paul Volcker, then chairman of the Federal Reserve, raised interest rates sharply to clamp down on inflation. The gold price subsequently fell sharply and in its place came a bull market in government bonds that has, with a few sharp interruptions, continued to this day. Although central banks around the world still hold about 30,000 tonnes of gold in their reserves, many have been offloading their stocks over the years. They can earn only a nugatory rate of interest on these stocks (by lending them out) compared with what they can earn on government bonds. For most people, gold has been relegated to the status, in the words of Keynes, of a “barbrous relic”; its price has risen only feebly when investors have fretted about inflation.

Those who doubt the continued worth of paper money as a store of value point to two things. The first is that the price of gold has been rising even though official inflation is low. From $253 an ounce in the late 1990s, gold now fetches just over $400 an ounce, and it rose as high as $430 an ounce earlier this year. It is not just the price of gold that has been rising: so, too, have the prices of precious and base metals. There may, of course, be many other reasons for these rises. China's rapidly expanding economy is gobbling up metals and other commodities for its factories. Moreover, the rise in the price of commodities also reflects the weakness in the dollar: these rises look much less impressive when quoted in euros or yen. But the rise in the price of gold in particular has raised questions.

The biggest of these—and the second main reason for concern—is the amount of debt that rich-country governments have been running up. America's official budget deficit has surged in the three years since

George Bush became president, to around $520 billion and climbing. But this is just the shortfall this year. The government's total future liabilities are much larger. In fact, according to a forthcoming book by Laurence Kotlikoff, an economist, the present value of the American government's future obligations, taking into account promised pensions and health-care benefits, is a staggering $45 trillion. European governments are only slightly better at managing their budgets—witness the breaching of the single currency's growth and stability pact. Japan's attempts to coax its economy back to life have left it with a gross national debt of some 160% of GDP, the highest of any big country. No country has tried harder to debase its currency.

In theory, such debts would not be tolerated for long by investors, since the easy way out for central banks is to “monetise” them with inflation. Bond prices would fall (and thus yields rise) as investors worried that they would be paid back in a debased currency. But capital markets currently seem oblivious to spiralling debts. At some 4%, yields on ten-year American Treasury bonds are close to their lowest in two generations, although this is partly explained by huge purchases by Asian central banks. Yields elsewhere are also very low, nowhere more so than in Japan, where ten-year government-bond yields are now 1.3%.

The problem may be that bond investors, far from being far-sighted, are in fact myopic, and are perhaps being fooled by the temporary disinflationary effects of excess capacity and debts built up over the bubble years in both Japan and America. Perhaps, too, investors have been lulled into a false sense of security by the performance of central banks in recent years, and the independence that has been granted to many of them by governments. But this very aura of inviolability may be storing up problems, since it means that governments can borrow still more at cheap rates. And if governments then find themselves crushed by debt, you can rest assured that this independence will be taken away. And then, once again, the paper in your pocket will only be as good as a politician's promise.

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MMR and autism

A dose of dissent

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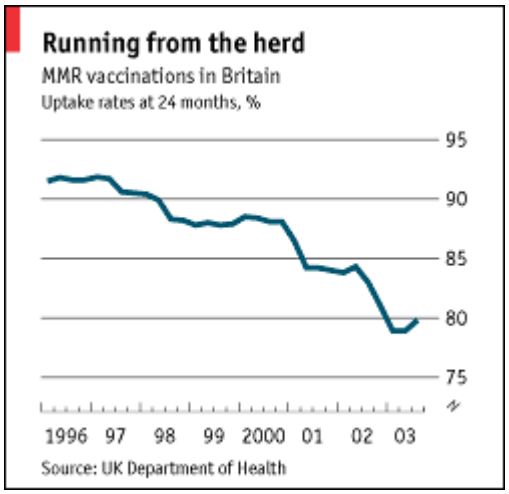
From The Economist print edition

Science Photo Library

Doubt has been cast on the paper that started the MMR-and-autism scare

A FEW years ago Richard Dawkins, an evolutionary biologist at Oxford University, came up with the idea of the "meme". He was trying to make the slippery problem of the evolution of human culture as tractable as that of biological evolution, and he thought that if cultural information could somehow be divided into separately transmissible elements, in the way that biologically heritable information is divided into genes, the rest might follow. A successful meme, he speculated, might pass from person to person like a virus.

Few recent memes have been more successful than the one which causes many people, particularly in Britain, to believe that the combined measles, mumps and rubella (MMR) vaccine can cause autism in children. That meme has been responsible for a fall in vaccination rates in Britain from more than 90% to less than 80% over the past six years (see chart). The consequence has been a rise in the incidence of measles and mumps, as the so-called "herd immunity" which mass vaccination brings has broken down. As the meme has spread, so have the viruses.



The MMR-causes-autism meme originated in the early 1990s, in the wake of suggestions that measles itself is a cause of autism. But it really started spreading in 1998, after the publication in the *Lancet* of a paper by Andrew Wakefield, of the Royal Free Hospital in London, and his colleagues. The paper examined the cases of 12 children who had two things badly wrong with them, a conjunction that the authors considered was a new syndrome (the fancy name for a set of symptoms that reflect a single underlying disease). The children in question had chronic intestinal disease, and they also had a history of normal behavioural development followed by a loss of behavioural skills that had already been acquired. In the majority of cases, the behavioural problems had been diagnosed as autism. And in eight of the 12 cases, the onset of the behavioural problems was associated by the child's parents with MMR vaccination.

The authors clearly state in the paper's discussion that "We did not prove an association between measles, mumps and rubella vaccine and the syndrome described." Nevertheless, the suggestion was

there, and that was enough. No amount of official reassurance could persuade the sceptics. Nor did the results of other studies, including one carried out in Finland, which looked at all the children vaccinated with MMR in that country over a 14-year period and failed to find any association. Then a larger study in which Dr Wakefield was involved produced evidence that children with the new syndrome had measles viruses in their guts more often than healthy children did.

The measles component of MMR consists of living, though “attenuated”, viruses—so the implication was that this was the source of the viruses in the children's guts. However, the presence of the virus does not indicate that it caused the disease. Indeed, there is reason to suspect that having this syndrome might make it harder for someone's immune system to get rid of the virus once it was introduced. In that case, the cause would be the other way around. Meanwhile, in America, a completely different meme is circulating. This also blames MMR for causing cases of autism, but the guilty component is alleged to be a mercury-containing compound called thimerosal, which is used as a preservative.

Now there is a new twist in the tale. On February 20th, the *Lancet* issued a carefully worded statement (in other words, one that looked as though it had been thoroughly examined by the publication's lawyers). It said that certain allegations about Dr Wakefield's paper had been brought to its attention (by a journalist on the *Sunday Times*, as it turned out). It rejected some of these allegations after investigating them. But some it accepted. In particular, it seemed as though Dr Wakefield had had an undeclared conflict of interest. In the light of this Richard Horton, the *Lancet*'s editor, said that if he had known then what he knew now, the paper would have been significantly modified before publication.

Correlation or causation?

Dr Wakefield's conflict of interest was that he had received £55,000 ($90,000) from England's legal-aid board to carry out a second study on the relationship (if any) between MMR and autism. This board was the body responsible for giving financial support to people involved in legal action who were too poor to pay for it. The board wanted to know if claims by parents that their children had suffered because of an MMR vaccination had any scientific validity. Not making this clear at the time was, perhaps, a little foolish. Nor was Dr Wakefield the only common factor between the two studies. Several children participated in both as well, though Dr Wakefield says he was not responsible for this.

In one sense, parental response to the scare has been rational. The real benefit of vaccination against the three diseases involved is that it denies the viruses a place to hide in the population. This is the phenomenon referred to as herd immunity. But if everyone else's child is immunised, there is no need to immunise your own. So even a small risk is not worth taking, until herd immunity falls so far that the threat of infection (and measles is a disease that can cause serious brain damage) outweighs the risk of vaccine damage.

The actual pattern of response, however, does not suggest such a cool and Machiavellian assessment of risk. That is because the reaction of many parents has been to have (or want to have) their children vaccinated one disease at a time. Indeed, such a course of action was recommended by Dr Wakefield at a press conference held at the time the *Lancet* paper was published.

But besides leaving those children at risk of infection longer, this course of action does not seem to square with the idea that the risk factor for the alleged new syndrome is measles. There is no obvious reason to believe that a shot of pure live-virus measles vaccine would be less risky than MMR. (Killed-virus vaccines exist, but give less protection.) Although there have been claims that multi-disease vaccines somehow put more pressure on the immune system than single-disease ones, there is no actual evidence to support this.

So what is going on? One problem with the first study, apart from its tiny sample size, was that the original association between the administration of the vaccine and the onset of symptoms was, in most cases, made by a child's parents. In these circumstances, a parent is unlikely to be a rational observer. Indeed, he or she may be actively looking for something to blame for what in earlier times might simply have been regarded as an act of God.

The age at which the symptoms of autism generally manifest themselves is similar to the age at which MMR is first administered (14 months; a second dose comes later). Given that the MMR-causes-autism meme already existed, the link would be easy to make retrospectively. But correlation is not causation. At least, not always.

Dr Wakefield seems unrepentant. He points out (correctly) that his undeclared conflict of interest does not automatically discredit the original paper's science. And he says that he welcomes the inquiry into his research that has now been set in motion by the General Medical Council, the governing body of Britain's doctors. Whether the incident will serve as an effective pro-vaccine meme remains to be seen. If it does, it might yield an interesting result in cultural epidemiology, as well as casting light on the more traditional sort.

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AIDS testing

The ideal versus the best

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A new testing policy in Botswana aims to make AIDS less special

Get article background

BOTSWANA'S much-lauded anti-AIDS strategy produced a puzzle last year. The country has a widely publicised two-year-old programme of giving out free anti-retroviral drugs that treat the symptoms of the disease, and prolong life. But of its 1.6m inhabitants, only 18,000 have enrolled for treatment in public hospitals, with just 12,000 of them taking the drugs. (Another 5,000 patients get the drugs through private care.) Though even those numbers test the capacity of the health service, many had expected much higher demand. Why is the response so low?

The answer is that few people know they need treatment. Just 70,000 AIDS tests had been done by the middle of 2003, according to the African Comprehensive HIV/AIDS Partnerships, which help to run Botswana's anti-AIDS programme. The widely held assumption that people would volunteer for AIDS-tests in droves once treatment became available was wrong. And the reason for that appears to be that the government has not managed to reduce the stigma associated with AIDS, and thus with seeking out a test for it if you suspect you might be infected.

To combat this, the whole basis of AIDS testing in Botswana has just been changed. The idea is to “downgrade” the process into something low-key, routine and stigma-free.

Until now, a potential test subject had to opt in, by asking for a test. Having asked, he was given 40 minutes of counselling to make sure he really knew what he was doing before any test was carried out. The new policy is to test people routinely when they visit the doctor. That way, having a test cannot be seen as an indication that an individual believes he may be infected. The test is not compulsory, but objectors must actively opt out. Silence is assumed to be consent, and no counselling is offered—just as would be the case for any other infectious disease.

This policy shift is probably just the first of many that will take place in Botswana, South Africa and other African countries that are planning the mass provision of anti-AIDS drugs in public hospitals. Ndwapi Ndwapi, a doctor at Botswana's largest AIDS clinic, in Gaborone, for example, thinks that there are circumstances in which testing should be compulsory. In particular, he believes that the currently high rate of transmission from mothers to new-born children could be reduced to zero if expectant mothers were always tested—and if those who proved positive were treated with an appropriate anti-retroviral before they gave birth.

Another controversial change in the air is to reduce the frequency of two costly tests of patients' blood. Viral-load tests and CD4-cell counts both measure how acute an individual's infection has become. That helps a patient's doctor to decide when to prescribe anti-retrovirals. But laboratory capacity in Africa is inadequate for regular testing of the millions of people that need such drugs—at least if the tests are carried out as frequently as they would be in a rich country. Less frequent testing of each individual would allow more individuals to be given at least some tests.

Of course, AIDS is not really “just another infection” yet—not least because of the penumbra of activists around it. Some of these activists fear for the rights of patients if changes in testing procedures are pushed too far. Routine or compulsory testing could clash with a patient's wish to remain ignorant of his disease status. Less counselling and less frequent tests of viral loads and CD4 counts are likely to reduce the quality of individual patient care.

But that must be balanced against the need to treat more people faster. Doctors in Botswana are

staggered at how desperately sick many patients are when they first arrive. They had expected people to walk into clinics for AIDS tests. Instead, many come in on stretchers on the verge of death. Treating the very ill takes much more time and money than giving anti-AIDS pills to relatively healthy people, and it means that these people may have been inadvertently infecting others for longer. If routine tests persuade more patients to get help before they slump on a stretcher, all the better.

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Regenerative dentistry

Tooth fairies

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It may soon be possible for adults to grow new teeth

PAUL SHARPE, a dental researcher at King's College, London, is not too worried about eating sweets. As any dentist would be happy to remind him, such sugary treats will rot his teeth. But Dr Sharpe believes that his researches should one day enable him—and everyone else—to grow a completely new set of gnashers.

Although human babies are born without visible teeth, they have “proto-teeth” hidden in their gums. These proto-teeth, known as primordia, derive from an interaction between two basic cell types, called epithelial and mesenchymal cells. By culturing these cells, and putting them together as they would come together naturally, Dr Sharpe has managed to form an artificial primordium.

To do so, he starts with human neural stem cells (these are undifferentiated cells similar to those found in embryos, and which are capable of developing into a variety of cell types). He aggregates his stem cells into small pieces of tissue, then overlays a piece of oral epithelium on them. The cells of oral epithelium already know they are supposed to become part of a tooth, and they “instruct” the stem cells to turn into oral mesenchymal cells. When the resulting primordium is transplanted into a mouse kidney (a good environment for this sort of thing, since it is well supplied with blood and oxygen) it turns into a tooth.

Dr Sharpe has dubbed this area of research “regenerative dentistry”. His hope is that it will become possible to implant the primordium into a patient's gum, in the place of a removed or lost tooth. After implantation, it would grow, form roots that would attach themselves to the jaw, and eventually erupt into the mouth after only a few weeks.

For the process to work reliably, however, it will be necessary to persuade the primordium to develop into a full-fledged tooth. This would be done by activating appropriate genes. The trick remaining is to identify exactly which ones. Though thousands of genes are involved in the development of an organ such as a tooth, these genes are switched on in a cascade, with the activity of one triggering the activation of the next. So it is only necessary to identify, and kick-start, the first genes in the cascade, which are likely to be few in number. One such gene that has already been identified is called Barx1. This gene is expressed only in cells in primordia that are destined to become molars, so it is probably a gene that controls the shape of a tooth.

With populations in rich countries getting long in the tooth, as it were, it seems likely that there will be a huge demand for regenerative dentistry. To exploit that demand, Dr Sharpe has started a company called Odontis. If it succeeds in commercialising his stem-cell technology, its shareholders will, indeed, have plenty to smile about.

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Small-scale physics

Atto boy!

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The shortest time yet measured, and the most sensitive set of scales

PEOPLE who think “nano” is the epitome of smallness should think again. A nanosomething is but a billionth of that something. Two new pieces of research concern themselves with attosomethings—billionths of the nano.

Ferenc Krausz, of Vienna University of Technology, and his colleagues, are concerned with attoseconds. They have just published a paper in *Nature* which describes their measurement of the shortest time interval ever recorded, a mere 100 attoseconds. Meanwhile, across the Atlantic, at Cornell University, Harold Craighead and his colleagues have succeeded in building a set of scales that are sensitive to a fraction of an attogram. Their work is due to appear in a forthcoming paper in the *Journal of Applied Physics*.

Dr Krausz's achievement was a by-product of his studies of the orbitals of electrons around atomic nuclei. Quantum theory makes precise predictions about the energy of those orbitals, and Dr Krausz was checking that those predictions are correct. (They are.)

To measure the energy in question, he used two successive pulses of laser light, each 250 attoseconds long. The first knocked electrons free from their orbitals. The second scattered them. The scattering changed the momentum of the electrons in a way that depends on their original orbital position. Momentum is mass times velocity, but all electrons weigh the same, so measuring their velocity was enough.

Enough. But tricky. Dr Krausz did it by recording the arrival times of different electrons using a piece of equipment called a multi-channel plate detector. And he needed to be able to tell them apart as precisely as possible, to avoid recording two arrivals as one.

In this case “as precisely as possible” meant within 100 attoseconds. That is the limit imposed by Heisenberg's famous uncertainty principle (which states that the precision of a time measurement is limited by the precision of a corresponding energy measurement). And by careful crafting of the scattering pulses he was able to go all the way to that limit.

This sort of work is pretty abstruse. Dr Craighead and his colleagues have a more concrete goal in mind: identifying viruses by weighing them. Different sorts of viruses have different weights, but all viruses of a particular type weigh the same amount.

Dr Craighead created his tiny scales from crystals of silicon. Using beams of electrons, he carved a cantilever out of the edge of each crystal (think of a knife held down on a table, with the blade sticking out). Put an object on the end of such a cantilever and the lever will bend. It will also tend to vibrate at a frequency determined by the weight of the object. It was this vibrational frequency that the team measured.

Instead of actual viruses, Dr Craighead weighed small amounts of gold. The smallest was 0.39 attograms—about 10,000 atoms. That level of sensitivity should be enough to identify viruses, but it is not enough for Dr Craighead. By refining the system further, he expects to be able to weigh a zeptogram—a thousandth of an attogram. Move over nanotech, it seems that zeptotechnology is just around the corner.

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Science and art

Giorgione the modernist

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From The Economist print edition

New discoveries about a puzzling painter

SINCE Giorgione's brief life (c. 1478-1510), the images of this perplexing Renaissance painter have enticed art historians and gallery-goers alike. Even Byron, who claimed to despise painting, was stopped in his tracks by Giorgione's “The Tempest” (detail pictured) and wrote a poem about its alluring female heroine. So the opportunity to see in his native Venice nine of the 25 paintings attributed to Giorgione, with the claim by the Venetian conservation authorities that new scientific discoveries have been made about the way he worked, was very welcome.

The exhibition was put on to celebrate the restoration of one of his masterpieces, the Castelfranco altarpiece. It was shown alongside the Venetian Accademia's two Giorgiones, “The Tempest” and “The Old Woman”. Seeing nine of his works in one room was a visual feast. Those who missed the Venice show, which ended on February 22nd, may wish to head for Vienna, where the Kunsthistorisches Museum is holding a Giorgione exhibition from March 23rd. The museum, which has the world's largest collection of Giorgiones, is borrowing the two Accademia paintings for the show.

What the Venetians have done is to use infra-red technology on a number of paintings to provide a glimpse of the layers of painting and drawing under the surface. Here, revealed for the first time, are the numerous changes made by the artist before settling on the finished version we see now. The drawings that have become visible are a new resource for students. “What has become clear with the infra-red discoveries,” says Jaynie Anderson, the author of an influential monograph on the artist, “is that Giorgione was a radical modernist when he drew. Giorgione doodled as he worked out compositions, just like 20th-century artists.”

But why did Giorgione, “the modernist”, paint such free and fanciful images only to delete them or adapt them into more restrained ones? In “The Tempest”, for example, why did he turn a woman at the brook into a man dressed in the uniform of a Venetian aristocratic confraternity dedicated to theatre? Might Giorgione have composed these images under the eye of his patrons, discussing and revising the various images and ideas as he put paint to canvas?

The Venice exhibition did not seek to answer these and other questions. An historian once described the

artist as a “black hole”: he does suck people in; he endures as an enigma. However, in Vienna there may be at least some new clues to Giorgione's riddles. This show will include loans from a number of American collections, among them the National Gallery of Art in Washington, DC. It will aim to place the artist's work in the context of the other painters of his time.

Ultimately, though, a poet such as Byron stands as good a chance of deciphering Giorgione as any of the scholars who have tackled the subject for centuries. For the artist saw himself—and was seen by the coterie of patricians who collected his work—as a poet of paint. He favoured fantasy subjects whose meanings were allegorical rather than literal. Instead of creating “eyewitness” accounts of an event, in the manner of Giovanni Bellini, under whom he studied, or telling a compelling story, like his successor Titian, Giorgione was more abstract.

He alluded to poetic ideas, musical, mythical, erotic, with an economy of imagery and spare, thinly applied layers of paint and pigment. He emulated the *chiaroscuro* effects he saw in Leonardo's drawings, combining them with a pastel palette and soft, atmospheric modelling that defined Venetian Renaissance painting in the years that followed.

For the inner circle of cultivated Venetian collectors who bought, sold and swapped his paintings, interpreting the meaning of Giorgione's works became a rarefied game. For succeeding generations it has become an uncrackable code. But Byron's belief that “The Tempest” represents “love in life”, poetry made flesh, may be as valid as any of the innumerable theories proposed about this mysterious painting and its maker.

“Giorgione” is at the Kunsthistorisches Museum, Vienna, Austria, from March 23rd-July 11th

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About sponsorship

Sovietology

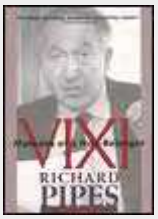
The hawk and his prey

Feb 26th 2004
From The Economist print edition

IT IS hard to imagine a more interesting life, or one better told. Richard Pipes, who later became America's best-known hawk on Soviet affairs, was born into a family of German-speaking Jews in a Polish-Czech frontier town in 1923. For comfort and happiness, that was a bleak start in life. For first-hand insight into 20th-century history, it could scarcely be bettered.

It is fashionable in some quarters to dismiss pre-war Poland as fascist and anti-Semitic, and to trace a connection from that to the extermination camps established there during Nazi occupation. Only 19 pages into the book, the author is already flexing his formidable mental muscles against such notions. He dissects the real meaning of fascism (a kind of radical socialism, originally); then he points out that the semi-authoritarian regime in pre-war Poland owed nothing to such ideas. He explains the nature of Polish anti-Semitism, not to downplay it (he found it disgusting, especially in the immediate pre-war years) but to show that a "Polish-Jewish middle-class child could be happy".

Vixi: Memoirs of a Non-Belonger
By Richard Pipes



Yale University Press; 264 pages; $30 and £19.95

Buy it at
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Amazon.co.uk

This is just a foretaste of the treats in store. Mr Pipes escaped the holocaust, thanks to forged papers and his father's wits, and then helped fight and win the cold war. His memories are viewed through the prisms of intelligence and erudition. The pithy paragraphs on suffering, fate and wickedness, from the point of view of a believing, "non-practising Orthodox Jew", mix humility and insight so ably that the reader feels deprived when the pages turn to more mundane matters.

Mr Pipes discovered early in adult life that his love for music and art was not matched by creative talent. Instead he resolved that his writing would not only be factually scrupulous, but as aesthetically pleasing as possible. In this excellent book, as in his many others, the prose amply lives up to that aim.

His character sketches are deft and convincing. The affectionate but critical description of Isaiah Berlin, a friend and colleague who both inspired and disappointed him, is particularly gripping.

Most of the book is about Mr Pipes's post-war life in America, loved austerely but gratefully. He spent his working life largely at Harvard, relishing the intellectual fizz as the wartime generation returned to study, using wisely the great freedom granted to tenured professors like himself, but increasingly disgusted in later years by academic trendiness and moral cowardice.

An early research project was to interview all the surviving members of the national governments that sprang up in 1917 amid the ruins of the tsarist empire, only to be snuffed out by the Bolsheviks a few years later. Most mainstream Sovietologists, convinced that Soviet communism was here to stay, saw these short-lived statelets as an irrelevance. But the study developed into Mr Pipes's best-known idea: that the Soviet Union was better understood as a successor to past Russian imperialism than through Kremlinology, sociology or other modish approaches.

For most of the cold war, Mr Pipes was a lonely ploughman. Most academic Sovietologists thought their job was to try to understand the Soviet Union better. It was even argued that capitalism and communism were converging. Only Mr Pipes, and a handful of similarly brave and stubborn types, insisted that it was a disgusting dictatorship that couldn't last. Even the Reagan White House, where Mr Pipes was an adviser, was not immune to wobbles and muddles, acutely described in this wonderful book.

When Soviet power collapsed, much as he had predicted, thanks to its inability to keep up with American military might, Mr Pipes was proved triumphantly right. His rivals have yet to apologise for being so

wrong for so long.

Vixi: Memoirs of a Non-Belonger.
By Richard Pipes.
Yale University Press; 264 pages; $30 and £19.95

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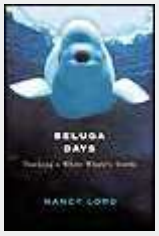
Environment

A whale's story

Feb 26th 2004
From The Economist print edition

IN A nation where, as Nancy Lord observes, every year 32m Americans “come face to face with marine mammals in zoos, aquariums and marine parks”, the white beluga whales of Cook Inlet, Alaska, offer an important touchstone of environmental politics. In the early 1990s there were more than a thousand of the Cook Inlet's genetically distinct belugas. They declined to just a few hundred over the next decade and are now threatened with extinction. The future of the Cook Inlet belugas is caught between the competing, and sometimes conflicting, interests of environmentalists, conservation scientists, native Alaskans and economic developers.

Beluga Days: Tracking a White Whale's Truths
By Nancy Lord



Counterpoint; 242 pages; $25

Buy it at
Amazon.com
Amazon.co.uk

Nancy Lord lives in Cook Inlet and, from the shores of her summer camp, where she fishes commercially for salmon, she used to watch the belugas swim past in their hundreds like “white wheels turning”. A few years later, seeing fewer and fewer whales, Miss Lord set out to discover why she had watched all season without seeing a single beluga. This compelling book is about her travels from the Alaskan communities where the whale is still hunted, to the theme parks where belugas spin and “swipe with their tails” for the excitement of the crowd.

The book raises challenging questions; from the rights of an increasingly urban-based native population to hunt and manage its traditional food resources, to the willingness of some environmental groups to blame harvesting for the whales' decline while focusing less on the accumulation of chemicals that may threaten the health of the belugas and the native people that hunt them. More encouragingly, the book illustrates successful examples of co-management, where hunters help scientists to take biopsies, monitor whale numbers and capture belugas so they can track them via satellites to their winter feeding grounds.

The white beluga's home

Miss Lord writes, not with the sentimentalism often associated with whales, but with the professionalism of someone who earns a living from the sea and who respects the belugas whose environment she shares. “Beluga Days” is an important book filled with issues that resonate beyond the conservation of Cook Inlet's beluga population to other parts of the world where the traditional use of wildlife, conservation and development are increasingly in competition. Perhaps the book's most important message is the interconnectedness of the many factors that threaten the belugas. The author quotes supportively from an epigram by Joy Williams: that it is not helpful to “save the whale and screw the shrimp”.

Beluga Days: Tracking a White Whale's Truths.
By Nancy Lord.
Counterpoint; 242 pages; $25

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About sponsorship

Motor sport

A girl with guts

Feb 26th 2004
From The Economist print edition

IN THIS spine-tingling biography of a forgotten French motor-racing pioneer, Miranda Seymour uncovers the life of one of the 20th century's most daring women. Hélène Delangle, born into a humble family in 1900, left her dusty village in her late teens for the glamour of theatrical Paris where she worked as a nude model, a cabaret dancer and performed a high-wire act.

Hellé Nice, as she called herself, went down a storm in the Paris music halls with her heart-stopping smile and svelte figure—often unclothed. A skiing accident ended her stage career in 1929 but her fascination with cars and her iron determination turned her to motor-racing; a perfect sport for a woman who said, “The thing I like best in the world is adventure.”

In 1929, driving an Omega Six at France's steeply banked Montlhéry circuit, Hellé Nice won the first grand prix for women. Her achievement and charisma caught the eye of Ettore Bugatti who offered Hellé the use of a supercharged Bugatti 35C, “the world's most beautiful sports car”, as it was called at the time, for an attempt on the world speed record. On December 18th 1929, she became the fastest woman driver in the world, averaging 120.5mph (194kph) over ten miles—48 seconds a lap—at Montlhéry. The author describes it thus: “Far below her, hurtling into the second lap, Hélène caught a glimpse of upturned faces, a ring of startled moons. The rev counter showed 5500: good. Keep it steady. Her ankle throbbed as she clamped the rubber sole of her shoe to the throttle, gluing it down; the tyres swivelled on loose grit, bringing a shriek of rubber into the roar of the wind.”

The Bugatti Queen: In Search of a Motor-Racing Legend
By Miranda Seymour

Simon & Schuster; 301 pages; £15.99. To be published in America by Random House in December

Buy it at
Amazon.co.uk

Fast mover

The next seven years were Hellé's finest. She raced Bugattis and Alfa Romeos against the best male drivers of the day on Europe's toughest circuits, took part in rallies and hill climbs, and spent a year racing on lethal dirt tracks and speed bowls in the United States. Her skill behind the wheel and her showgirl's sense of spectacle gave her world fame.

It was not to last. A horrific crash in the 1936 São Paulo grand prix nearly killed her and, after convalescing in France, she drove in only a few more events before the ensuing war put a stop to racing. In 1949, Hellé's attempt to restart her career was destroyed when a fellow driver accused her of having been a Gestapo agent.

Despite a fight to clear her name, the accusation ruined her. She plunged from riches to poverty. Her lover left and by 1959, “the most audacious woman driver of her time”, who had owned a yacht, lived in a villa on the Riviera and for whom the Marseillaise was played whenever she drove on to a track, was penniless. She died alone in Nice at the age of 84. Her grave remains unmarked.

“The Bugatti Queen” superbly brings alive the dirty, lethal, glamorous world of 1930s motor-racing but what shines most strongly from its pages is the vividness of Hellé Nice's personality; her joie de vivre, her determination, her spirit and her sheer nerve. In writing this enthralling book, Miss Seymour has given the forgotten “*championne du monde automobile*” the tribute she has so long deserved.

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Simon & Schuster; 301 pages; £15.99. To be published in America by Random House in December

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New fiction

Beyond the pale

Feb 26th 2004
From The Economist print edition

BLACK South Africa has found a strong new voice in Zakes Mda, a marvellous storyteller. In a country where such things count a lot, his political credentials are impeccable. He had a front seat on the fight for liberation as the son of a prominent African nationalist exiled in Lesotho and he speaks nine of his country's 11 official languages. Yet it is impossible to stick any ideological label on to Mr Mda's fiction. He defies all political constraints as he seeks to go to the very soul of post-apartheid South Africa.

The Madonna of Excelsior
By Zakes Mda

Farrar, Straus and Giroux; 272 pages; $23. OUP Southern Africa; 130.01 rand

Buy it at
Amazon.com
Amazon.co.uk

"The Heart of Redness", his first ambitious novel, was such a book. Its title is not just a play on Joseph Conrad's classic. It harks back to the way Mr Mda's Xhosa people beautified themselves with red ochre, and serves as a metaphor for the struggle between "believers" (traditionalists) and "un-believers" (progressives) in today's South Africa.

The starting point is a real event: the destruction of the Xhosa as an independent nation when, in the mid-1850s, they were misled by Nongqawuse, a young prophetess. She promised them that if they slaughtered their livestock their ancestors would rise from the dead to drive the British invaders into the sea. Most believed her, did as they were advised and starved themselves to death or destitution.

The novel transforms this struggle between tradition and modernity into the present, where it is far more complex. Are, for instance, modern believers so misguided when they resist plans to turn an impoverished wilderness town into a coastal resort for rich tourists? Unfortunately, those unfamiliar with South Africa may be puzzled by Mr Mda's historical references and daunted by his fondness for Xhosa expressions and such difficult names as Xoliswa Ximaya, Qukezwa and Gqolomo.

Now, his fine new novel has none of the weaknesses and all of the strengths of "The Heart of Redness". It, too, is based on an historical event that still resonates through South Africa: the arrest in 1971 of 19 citizens of a small town in Orange Free State for contravening the Immorality Act by having sex across the colour line. Using changed names and disguised identities, Mr Mda imagines, in "The Madonna of Excelsior", how their lives have proceeded since then.

Most of those involved emerge as people deserving, if not sympathy, at least understanding. The female characters are as well developed as the male ones. The Afrikaners, even "the hairy farmers in safari suits with combs in their socks", are viewed with exasperated affection as blinkered patriots with as much right as anybody to claim South Africa as their homeland.

Magic realism runs through the story, and each chapter is introduced by a detailed description of a mystical, often religious, painting by a priest, Father Frans Claerhout, now resident in a retirement home in Bloemfontein. But if the earthbound parts of the novel have a hero she is Popi, the child of an illicit coupling between a white man and a black woman. She is called a "coloured" by the polite, but mocked as a "hotnot girl" or a "bushman" by the unkind. When she covers her too-straight and too-fair locks she wonders how "in the old apartheid days I was not white enough, and now in the new dispensation I am not black enough". And with wry amusement she compares her predicament with that of the black girls who despise her "colouredness" yet buy Artra, Ambi Extra, Super Rose and other creams to lighten their skins.

The villains are "affirmative-action people", who count not on their ability but on their skin colour to win promotion, and the former leaders of the struggle, now town councillors, who allocate subsidised houses

to themselves, their girlfriends, mothers and grandmothers. These are sub-themes in a novel exercised mainly by the interaction between people of different colours as they come to terms with their pasts, presents and futures. Corrupt members of South Africa's new black elite will nonetheless find “The Madonna of Excelsior” makes uneasy bedside reading. So will their white apologists.

The Madonna of Excelsior.
By Zakes Mda.
Farrar, Straus and Giroux; 272 pages; $23. OUP Southern Africa; 130.01 rand

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Orchestral life

Fast and loud

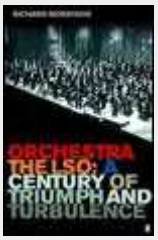
Feb 26th 2004
From The Economist print edition

TO MANY music lovers, the world's great orchestras seem timeless, as impervious to the flux of everyday life as their classic repertoire. Yet a closer look reveals these august institutions to be as subject to stress, conflict and uncertainty as any other human enterprise, and complicated by artistic temperament.

That salutary lesson is only one of the insights offered by this entertaining history of the London Symphony Orchestra, which celebrates its centenary in June. The LSO had violent beginnings, in a coup staged by a group of musicians against an employer they accused of infringing their professional rights. The indignant band formed “a musical republic”, the first self-governing orchestra in Britain, launching a century of independence, glorious music-making and, at times, a wilful penchant for courting disaster.

Indeed, Richard Morrison's chronicle often reads like a paradigm of the hazards of co-operative self-employment. With their economic fate in their own hands, the LSO tried to perform as much as possible, often cutting corners in rehearsal time. They became known for their formidable sight-reading, their ability to execute difficult scores with great panache on minimal acquaintance. An aggressive virtuosity became their house style. Asked to characterise the distinctive sound of the orchestra, an LSO player replied, “Fast and loud.”

Orchestra: The LSO—A Century of Triumph and Turbulence
By Richard Morrison



Faber and Faber; 306 pages; $30 and £20

Buy it at
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Amazon.co.uk

Though conductors were impressed with the ensemble's swashbuckling flair, not all were happy with their occasional wing-and-a-prayer approach to concerts. But as an independent body, its members were often blithely indifferent to what conductors thought. Far from kowtowing to the fabled tyrants of the podium, the LSO often talked back. A violinist once reduced an eminent maestro to tears by dismissing one of his instructions as “silly”.

But all the same, the LSO wanted to make the best music possible and valued conductors who could inspire them. Some of the most diverting pages here recount the band's attitude to those directing them, veering from contempt to respect to adulation. Though the orchestra achieved much publicity during the tenure of André Previn, many players were dissatisfied by what they saw as his lack of intellectual rigour. Previn was succeeded by the brooding, brilliant Italian, Claudio Abbado. But while some members of the orchestra found his interpretations electrifying, others were put off by his aloof rehearsal manner. One said that Abbado's monosyllabic English “sounded like broken Japanese”.

Divisions of that kind form a recurrent motif throughout the LSO's history, the inevitable result of powerful individuals with firm views battling to preserve their personal rights and dictate corporate direction. And the LSO's situation was particularly precarious because it was often unclear who was in charge, with control of the orchestra's affairs split between a player-chairman and a managing director. Each might make a decision without consulting the other. Amazingly, despite its undoubted international stature, the LSO has frequently found itself on the brink of disaster, and its history is an often manic sequence of peaks and troughs.

Nevertheless, after 100 years, the orchestra now seems to have entered a golden age of administrative stability and artistic prowess. Its current principal conductor, Sir Colin Davis, is widely respected, and its managing director, Clive Gillinson, a former cellist, has displayed a firm grasp of its best long-term interests. While it is true that some old LSO hands lament the ensemble's new sobriety (it now even includes women) and yearn for the larky days when, in André Previn's words, “it was like a sixth form with instruments”, an air of corporate responsibility is well suited to a time when classical music itself

faces an uncertain future.

Orchestra: The LSO—A Century of Triumph and Turbulence.
By Richard Morrison.
Faber and Faber; 306 pages; $30 and £20

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About sponsorship

Marco Pantani

Feb 26th 2004
From The Economist print edition

Corbis

Marco Pantani, Italy's favourite cyclist, died on February 14th, aged 34

AT THE Col du Galibier, 2,646 metres up in the French Alps, the road truly begins to climb. For 18 kilometres, or 11 miles, the gradient is seldom below 7%. For two kilometres it reaches 12%, forced through near-vertical mountain. Trees, bushes and grass disappear; the road twists among bare rocks. Until high summer, banks of snow line the route on both sides. If this is hardgoing for a walker, it is harder for a cyclist, bent double to force his frail machine uphill, battling not only tendonitis and exhaustion but the frequent cold and rain of the high mountains.

Yet there are heady compensations, too. To the north stands Mont Blanc, shimmering with snow; to the south, the gleaming white peaks of the Ecrins massif are ranged like a fortified wall. The cyclist who wins this daunting stage of the Tour de France is usually alone, exultant, in this glorious landscape, having broken out of the pack and left his rivals behind. Mountain cycling separates the inspired from the sloggers, who do well on the flat. The rewards of the mountains are for those who can almost fly.

Marco Pantani's best moment on the Col du Galibier came in 1998, when he launched a sudden attack four kilometres from the summit and, for 40 kilometres more, soared away on his own in the driving rain. He won the *maillot jaune* for that stage. Over his decade-long career, with 36 professional victories, he wore the *maillot* six times and the *maglia rosa*, the equivalent in the Giro d'Italia, 14 times. In 1998 he won both races, only the seventh time in history that the double had been achieved. The secret of his triumphs always lay in his astonishing bursts of speed as soon as the road began to rise and the snowy peaks began to loom above him.

He was ideally built for climbing: small, compact and muscular. He started as a teenager, and won his first Baby Giro because of his prowess in the mountains. Soon few could beat him there. Famously, on one ascent, his chain came off; he stopped, replaced it, and went on to win. As his fame spread he basked in Italy's adoration, tying a bandanna round his shaven head and sporting an earring for his races. He was “Il Pirata”, and the legions of fans who lined the roads to watch him and mobbed his hotels, reaching to touch his clothes as if he were a saint, often waved skull-and-crossbones flags.

The death image was appropriate, for it could be argued that his passion for mountains destroyed him. His worst crashes always occurred there. In the 1995 Giro a jeep drove into him as he descended the Pino Torinese, shattering his left leg and obliging him to spend five months on crutches. Two years later, a black cat capsized him on the descent to Chiunzi. Last May, riding in what was to be his last Giro, he

crashed in the second-to-last Alpine stage.

The urge to climb faster and more furiously than anyone else led him, inevitably, towards drugs. Rumours circulated about his uncanny bursts of speed. In hospital in 1995, his blood was found to have suspicious levels of hematocrit, an indicator (though not proof) of the use of performance-enhancing drugs. Four years later, wearing the *maglia rosa* after winning four mountain stages of the Giro, he failed a random blood test and was thrown out of the race. In 2001, a syringe containing traces of insulin was found in his hotel room; he said it had been planted there.

Alone in Rimini

Although Mr Pantani was never definitively found guilty of using drugs, he could not throw off the accusations. His fans did not desert him, but his racing suffered. After he failed to be included in the 2003 centenary Tour de France, he checked into a clinic for the treatment of depression.

His death is still a mystery. He died alone in a seaside hotel in Rimini, with ten opened packets of prescription sedatives scattered round the room. He had already told friends that, though he still rode his bike “just to turn my legs”, he was sick of cycling. His thickening, unhealthy body nauseated him. In a note that was read out at his funeral, scrawled over nine pages of his passport, he complained that both his sporting life and his private life had been “violated” by constant allegations and the scrutiny of the authorities.

Some of his cycling friends thought there was more to it. Although Mr Pantani had been technically part of a team in all his races, his career was a succession of solitary triumphs against the giants of nature. When the American champion Lance Armstrong—condescendingly, Mr Pantani thought—allowed him to win the Mont Ventoux stage of the Tour in 2000, he was so angry that he made Mr Armstrong chase him through the peaks for the next two days. The mountains were his, and he could not bear to see them conquered by anyone else.

Other champion climbers had felt the same, declining into depression and sometimes suicide once their careers were over. René Pottier, who excelled in the Alps, hanged himself from his own bike-hook in 1907; René Vietto retired in depression to a remote farm in the late 1940s; Thierry Claveyrolat shot himself in 1999. Having won their keenest victories alone, they struggled alone, like Mr Pantani, in the less exalting parts of life. And having been at the peak, literally and metaphorically, they found the coming down too hard.

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Overview

Feb 26th 2004
From The Economist print edition

Worries about job prospects caused the Conference Board's index of **American consumer confidence** to fall sharply in February, to its lowest level since October. Consumer prices jumped by 0.5% in January, as oil prices surged, but the core rate of inflation (excluding food and energy) remained unchanged at 1.1% in the 12 months to January.

Business confidence fell across Europe in February. **Germany's** IFO business-climate index fell for the first time in ten months, from 97.5 to 96.4. Business confidence also fell in **Italy, Belgium** and the **Netherlands**. The strength of the euro is starting to weigh on manufacturers' expectations.

On the other hand, the stronger euro is helping to curb the cost of imports, and hence inflation. **Germany's inflation rate** slowed to 0.9% in the 12 months to February from 1.2% in January. **French** inflation fell to 2.0% in January, from 2.2% in December.

Spain's GDP rose by a higher than expected 0.7% in the fourth quarter of 2003; output was 2.7% up on a year earlier. Spain was the EU's second-fastest-growing economy (after Greece) last year.

Canada's inflation rate fell to 1.2% in January, from 2.0% in December, largely because an electricity rebate in December 2002 (which distorted the December 2003 rate) dropped out of the 12-month price change.

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Output, demand and jobs

Feb 26th 2004
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.6	Q3	+ 4.8	+ 2.8	+ 3.7	– 0.1	Q3	+ 7.3	Q4	5.7	Jan	6.1
Austria	+ 0.8	Q3	+ 1.4	+ 0.9	+ 1.9	+ 2.2	Sep	– 6.1	Nov	4.6	Dec	4.3
Belgium	+ 1.2	Q4	+ 2.4	+ 1.0	+ 1.9	+ 8.3	Dec	– 4.3	Nov	12.9	Jan†	11.9
Britain	+ 2.8	Q4	+ 3.8	+ 2.1	+ 2.8	– 0.8	Dec	+ 6.4	Jan	4.9	Dec††	5.1
Canada	+ 1.0	Q3	+ 1.1	+ 1.7	+ 3.1	nil	Nov	+ 2.1	Nov	7.4	Jan	7.5
Denmark	– 0.5	Q3	– 0.8	+ 0.3	+ 2.2	– 0.2	Dec	+ 1.8	Dec	6.5	Jan	5.5
France	+ 0.5	Q4	+ 2.0	+ 0.2	+ 1.9	+ 2.0	Dec	– 2.2	May	9.7	Dec	9.3
Germany	+ 0.2	Q4	+ 0.9	– 0.1	+ 1.7	+ 3.5	Dec	– 2.5	Nov	10.2	Jan§	10.3
Italy	+ 0.1	Q4	nil	+ 0.5	+ 1.7	– 0.2	Dec	– 2.8	Nov	8.4	Oct	8.9
Japan	+ 3.6	Q4	+ 7.0	+ 2.3	+ 2.1	+ 5.9	Dec	+ 0.4	Dec	4.9	Dec	5.3
Netherlands	– 0.5	Q4	+ 1.2	– 0.8	+ 1.0	– 3.0	Dec	– 5.5	Nov‡	5.9	Jan**	4.4
Spain	+ 2.7	Q4	+ 3.0	+ 2.4	+ 3.0	+ 3.6	Dec	+ 2.9	Nov	11.2	Dec	11.5
Sweden	+ 2.0	Q3	+ 1.9	+ 1.6	+ 2.4	– 3.6	Dec	+ 4.2	Dec	5.9	Jan†	5.1
Switzerland	– 0.6	Q3	+ 1.0	– 0.4	+ 1.6	+ 0.4	Q3	+ 1.3	Dec	4.3	Jan†	3.5
United States	+ 4.3	Q4	+ 4.0	+ 3.2	+ 4.6	+ 2.4	Jan	+ 7.4	Dec	5.6	Jan	5.8
Euro area	+ 0.6	Q4	+ 1.2	+ 0.5	+ 1.9	+ 2.3	Dec	– 1.6	Nov	8.8	Dec	8.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.6	Q3	+ 3.2	na	na	+ 1.0	Dec	+ 2.5	Dec	9.5	Jan†	9.5
Greece	+ 5.0	Q3	+ 1.8	na	na	+ 3.9	Oct	+ 5.2	Sep	na		na
Iceland	+ 3.2	Q3	na	na	na	– 0.3	2002	na		3.4	Dec†	3.0
Ireland	– 0.1	Q3	na	na	na	+17.0	Dec	– 0.1	Dec	4.7	Jan	4.3
Luxembourg	+ 1.3	2002	na	na	na	+ 4.4	Nov	+ 2.0	Sep	4.1	Dec	3.4
New Zealand	+ 3.5	Q3	+ 6.3	na	na	+ 4.1	Q3	+ 6.0	Q4	4.6	Q4	4.9
Norway	+ 0.2	Q3	+ 3.3	na	na	– 4.5	Dec	+ 4.4	Dec	4.2	Q4	3.7
Portugal	– 0.9	Q3	– 2.1	na	na	+ 2.0	Dec	– 0.4	Nov	6.6	Q4†	6.2

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Oct-Dec; claimant count rate 2.9% in Jan. §EU harmonised rate 9.2% in Jan. **Nov-Jan. +

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About sponsorship

Prices and wages

Feb 26th 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 2.4	Q4	+ 3.0	+ 2.7	+ 2.2	– 1.1	Q4	+ 1.6	+ 5.1	Q3	+ 3.6
Austria	+ 1.2	Dec	+ 1.8	+ 1.3	+ 1.2	+ 2.2	Jan	+ 1.4	+ 2.3	Dec	+ 2.2
Belgium	+ 1.6	Jan	+ 1.2	+ 1.5	+ 1.4	+ 2.1	Jan	+ 0.1	+ 1.8	Q4	+ 2.2
Britain	+ 1.4	Jan*	+ 1.4	+ 1.4	+ 1.5	+ 1.6	Jan	+ 1.3	+ 3.4	Dec	+ 3.7
Canada	+ 1.2	Jan	+ 4.5	+ 2.7	+ 1.6	– 3.4	Dec	+ 2.8	+ 3.5	Nov	+ 1.9
Denmark	+ 1.1	Jan	+ 2.6	+ 2.1	+ 1.6	+ 0.3	Jan	+ 1.3	+ 3.7	Q4	+ 3.9
France	+ 2.0	Jan	+ 2.0	+ 2.1	+ 1.7	+ 0.4	Dec	+ 1.3	+ 2.9	Q3	+ 3.5
Germany	+ 0.9	Feb	+ 1.3	+ 1.1	+ 1.0	+ 0.4	Jan	+ 1.2	+ 1.6	Dec	+ 3.1
Italy	+ 2.2	Jan	+ 2.8	+ 2.8	+ 2.3	+ 0.8	Dec	+ 2.0	+ 2.7	Dec	+ 2.2
Japan	– 0.4	Dec	– 0.3	– 0.3	– 0.2	nil	Jan	– 1.0	+ 2.9	Dec	– 1.4
Netherlands	+ 1.4	Jan	+ 2.4	+ 2.2	+ 1.5	+ 0.6	Dec	+ 4.2	+ 1.8	Jan	+ 3.5
Spain	+ 2.3	Jan	+ 3.7	+ 2.9	+ 2.6	+ 0.7	Jan	+ 2.6	+ 3.1	Q3	+ 3.8
Sweden	+ 0.8	Jan	+ 2.8	+ 2.1	+ 1.4	– 1.9	Dec	– 0.6	+ 3.3	Nov	+ 3.9
Switzerland	+ 0.2	Jan	+ 0.9	+ 0.6	+ 0.5	– 0.2	Jan	– 0.2	+ 1.8	2002	+ 2.5
United States	+ 1.9	Jan	+ 2.6	+ 2.3	+ 1.5	+ 4.0	Dec	+ 1.2	+ 2.0	Jan	+ 3.0
Euro area	+ 2.0	Jan	+ 2.1	+ 2.0	+ 1.7	+ 1.0	Dec	+ 1.5	+ 2.6	Q3	+ 3.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.2	Jan	+ 1.4	na	na	– 0.7	Jan	+ 1.4	+ 3.9	Q3	+ 4.1
Greece	+ 2.9	Jan	+ 3.1	na	na	+ 2.0	Dec	+ 1.5	na		na
Iceland	+ 2.3	Feb	+ 1.5	na	na	+ 1.4	Feb	+ 3.5	+ 5.4	Dec	+ 5.4
Ireland	+ 1.8	Jan	+ 4.8	na	na	– 9.1	Dec	– 2.5	+ 4.7	Q3	+ 6.0
Luxembourg	+ 2.1	Jan	+ 2.3	na	na	+ 0.1	Dec	+ 1.3	+ 0.6	Nov	+ 3.2
New Zealand	+ 1.6	Q4	+ 2.7	na	na	– 0.1	Q4	– 1.4	+ 2.3	Q4	+ 2.1
Norway	– 1.8	Jan	+ 5.0	na	na	– 0.1	Jan	+11.6	+ 4.3	Q3	+ 5.0
Portugal	+ 2.3	Jan	+ 4.0	na	na	– 0.3	Jan	+ 2.6	– 1.7	Nov	– 0.5

*New series. RPI inflation rate in January: 2.6%.

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Switzerland

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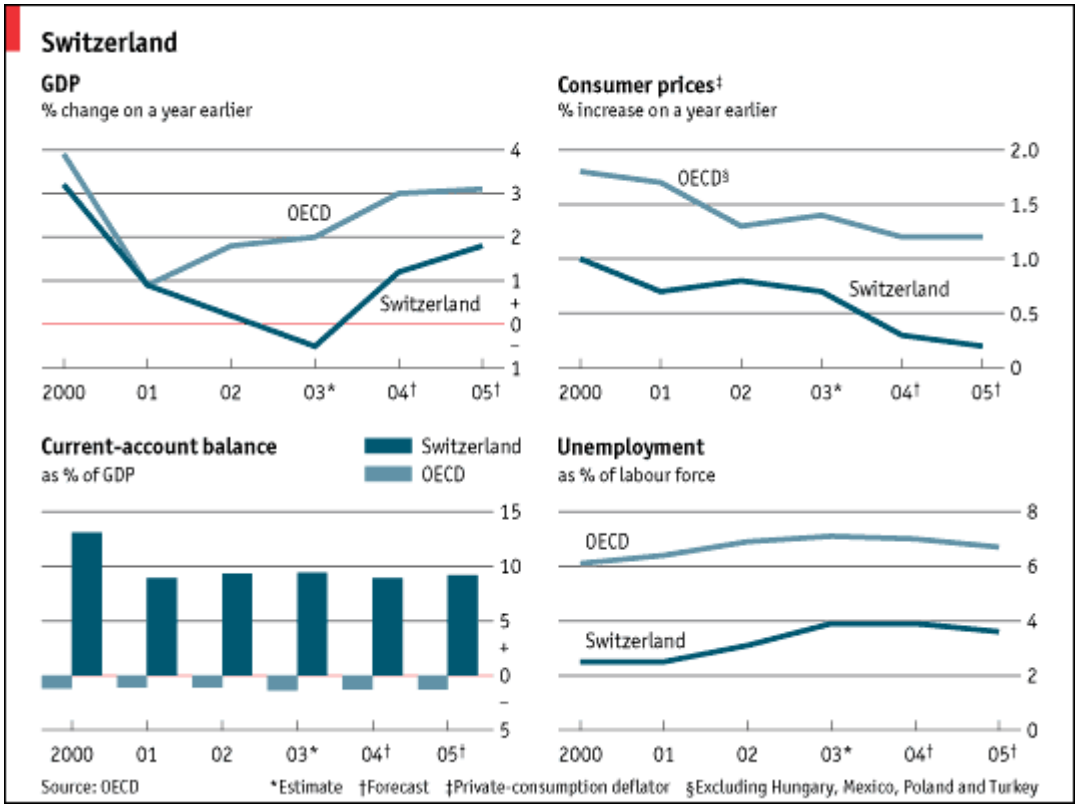

The Swiss economy has suffered in the past two years as businesses have cut investment and run down inventories in response to the world downturn. Exports have also been hampered by the appreciation in the Swiss franc. Output stagnated in 2002 and fell by 0.5% in 2003. Only a modest recovery is likely over the next two years. The OECD predicts GDP growth of 1.2% in 2004 and 1.8% in 2005, which will still leave the economy operating below capacity. As a result, consumer-price inflation is forecast to decline to 0.2% in 2005. The OECD says that, with interest rates virtually at rock bottom, the Swiss National Bank should stand ready to use “unorthodox” monetary measures if deflationary pressures emerge. In that event, it recommends a strategy of intervening in the foreign exchange markets in order to weaken the Swiss franc.

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Money and interest rates

Feb 26th 2004
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	Money supply* % change on year ago			Interest rates % p.a. (Feb 25th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.7	+13.7	Dec	5.63	4.70	5.35	5.64	5.15	6.57
Britain	+ 7.7	+ 8.4	Jan	4.13	3.66	4.23	4.77	4.19	5.60
Canada	+ 7.0	+ 7.7	Jan	2.13	2.87	2.40	4.41	4.99	5.89
Denmark	+ 6.4	+ 6.7	Jan	2.15	2.85	2.41	4.19	4.11	5.25
Japan	+ 4.3	+ 1.6	Jan	0.03	0.03	0.05	1.21	0.79	1.35
Sweden	+ 2.8	+ 2.6	Dec	2.42	3.51	2.95	4.42	4.36	3.09
Switzerland	+25.2	+ 9.0	Jan	0.26	0.57	0.71‡	2.46	2.25	2.45
United States	+ 5.6	+ 4.3	Jan	1.05	1.24	1.62	3.99	3.75	5.62
Euro area†	+10.6	+ 7.1	Dec	2.07	2.55	2.26	4.03	3.86	3.90

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. New Series. Benchmarks: US 30-year 4.89%, Japan No. 257 1.20%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.0%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Feb 26th 2004
From The Economist print edition

1995=100

	Feb 17th	Feb 24th*	% change on one month	% change on one year
Dollar index				
All items	95.0	96.6	+ 4.2	+23.3
Food	90.3	93.2	+ 2.4	+17.5
Industrials				
All	101.4	101.3	+ 6.5	+31.5
Nfa†	95.8	97.0	+ 3.9	+21.3
Metals	106.2	104.9	+ 8.6	+40.7
Sterling index				
All items	78.8	80.8	+ 0.6	+ 2.8
Euro index				
All items	97.5	100.3	+ 3.7	+ 4.6
Yen index				
All items	107.0	111.2	+ 6.7	+13.7
Gold				
$ per oz	413.50	403.45	– 1.7	+14.5
West Texas Intermediate				
$ per barrel	35.17	34.56	+ 1.5	– 4.1

* Provisional. † Non-food agriculturals.

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Stockmarkets

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Market indices

	Feb 25th	2003-04 high	2003-04 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,346.5	3,366.9	2,673.3	– 0.6	– 2.7	+12.5	+54.8
Austria (ATX)	1,780.9	1,803.4	1,120.2	– 0.4	– 1.2	+54.9	+85.1
Belgium (Bel 20)	2,476.4	2,493.9	1,426.6	nil	–32.7	+22.3	+46.1
Britain (FTSE 100)	4,507.5	4,524.3	3,287.0	+ 1.5	–35.0	+14.4	+33.7
Canada (Toronto Composite)	8,637.3	8,767.7	6,228.6	– 0.9	–24.2	+30.6	+54.3
Denmark (KBX)	235.6	237.6	145.0	+ 0.3	–21.9	+41.7	+68.8
France (SBF 250)	2,534.1	2,567.7	1,630.1	– 0.2	–42.3	+23.4	+47.5
(CAC 40)	3,702.6	3,759.3	2,403.0	– 0.2	–46.5	+20.8	+44.4
Germany (DAX)	3,995.3	4,151.8	2,203.0	– 2.4	–50.5	+38.1	+65.1
Italy (BCI)	1,295.3	1,310.9	959.4	– 0.2	–40.6	+18.6	+41.8
Japan (Nikkei 225)	10,658.7	11,161.7	7,607.9	– 0.2	–72.6	+24.2	+35.7
(Topix)	1,046.4	1,105.6	770.6	– 0.6	–63.7	+24.1	+35.5
Netherlands (AEX)	355.0	364.8	218.4	– 1.7	–49.4	+10.0	+31.5
Spain (Madrid SE)	855.3	870.0	576.8	– 1.0	–25.4	+34.9	+61.2
Sweden (Affarsvarlden Gen)	205.1	208.9	127.8	– 0.9	–48.8	+41.3	+67.2
Switzerland (Swiss Market)	5,811.5	5,882.1	3,675.4	– 0.3	–30.9	+25.5	+38.2
United States (DJIA)	10,601.6	10,737.7	7,524.1	– 0.7	– 9.6	+27.1	+27.1
(S&P 500)	1,143.7	1,157.8	800.7	– 0.7	–25.1	+30.0	+30.0
(NASDAQ Comp)	2,023.0	2,153.8	1,271.5	– 2.6	–59.9	+51.5	+51.5
Europe (FTSE Eurotop 300)*	1,007.6	1,017.3	682.7	+ 0.4	–40.9	+17.6	+40.5
Euro area (FTSE Ebloc 100)*	865.0	883.0	565.7	– 1.0	–44.2	+20.4	+43.9
World (MSCI)†	1,067.5	1,085.8	710.8	– 1.4	–26.3	+34.8	+34.8
World bond market (Citigroup)‡	609.4	619.5	518.6	– 1.6	– 1.6	+16.0	+16.0

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Feb 26th 2004
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	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2003	2004	Exchange rate trade-weighted† 1990=100 Feb 25th	year ago	Currency units per $ Feb 25th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2003‡
Australia	− 15.3	Dec	− 27.2	Q3	− 6.2	− 5.3	90.2	77.3	1.29	1.65	2.43	1.62	1.19	0.8
Austria	− 1.2	Nov	− 1.2	Dec	− 0.1	− 0.2	103.2§	101.3	0.80	0.93	1.50	–	0.73	-1.3
Belgium	+ 19.8	Dec	+ 9.9	Sep	+ 4.6	+ 4.8	103.5§	100.7	0.80	0.93	1.50	–	0.73	0.2
Britain	− 74.7	Dec	− 36.1	Q3	− 2.1	− 2.1	106.5	100.5	0.53	0.63	–	0.67	0.49	-2.9
Canada	+ 42.8	Dec	+ 16.7	Q3	+ 1.9	+ 1.3	86.0	78.6	1.34	1.50	2.52	1.68	1.23	1.0
Denmark	+ 9.9	Dec	+ 6.0	Dec	+ 2.7	+ 2.5	106.9	104.9	5.94	6.88	11.2	7.45	5.47	0.8
France	+ 4.9	Dec	+ 18.2	Dec	+ 1.3	+ 1.2	107.1§	103.8	0.80	0.93	1.50	–	0.73	-4.0
Germany	+146.8	Dec	+ 56.3	Dec	+ 2.4	+ 2.6	104.8§	100.9	0.80	0.93	1.50	–	0.73	-4.1
Italy	+ 2.1	Dec	− 20.6	Dec	− 1.1	− 0.9	76.4§	74.0	0.80	0.93	1.50	–	0.73	-2.7
Japan	+106.5	Dec	+136.0	Dec	+ 3.0	+ 3.0	133.9	133.1	109	117	204	136	–	-7.4
Netherlands	+ 31.7	Dec	+ 14.4	Q4	+ 2.8	+ 3.2	103.1§	99.9	0.80	0.93	1.50	–	0.73	-2.4
Spain	− 52.5	Nov	− 26.7	Nov	− 2.5	− 2.5	77.5§	75.5	0.80	0.93	1.50	–	0.73	0.1
Sweden	+ 19.2	Jan	+ 18.9	Q4	+ 5.1	+ 4.9	80.9	79.8	7.36	8.43	13.9	9.23	6.78	0.2
Switzerland	+ 6.8	Jan	+ 29.4	Q3	+10.8	+10.8	110.5	116.8	1.25	1.36	2.36	1.58	1.16	na
United States	−549.4	Dec	−541.7	Q3	− 5.0	− 5.2	95.6	107.6	–	–	1.88	1.25	0.92	-4.9
Euro area	+ 83.5	Dec	+ 36.5	Dec	+ 0.5	+ 0.6	91.6	86.5	0.80	0.93	1.50	–	0.73	-2.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.5	Dec	+ 9.2	Dec	na	na	82.3§	79.6	0.78	0.93	1.47	–	0.72	2.6
Greece	− 25.7	Dec	− 11.3	Dec	na	na	59.8§	58.3	0.78	0.93	1.47	–	0.72	-1.6
Iceland	− 0.2	Dec	− 0.4	Q3	na	na	93.4**	92.1	69.7	77.9	131	87.4	64.1	-1.0
Ireland	+ 38.5	Nov	− 2.1	Q3	na	na	95.6§	90.3	0.78	0.93	1.47	–	0.72	-1.0
Luxembourg	− 3.4	Nov	+ 2.0	Q3	na	na	103.5§	100.7	0.78	0.93	1.47	–	0.72	-0.3
New Zealand	− 2.1	Dec	− 3.3	Q3	na	na	107.1	98.2	1.45	1.77	2.73	1.82	1.33	2.6
Norway	+ 28.1	Jan	+ 28.7	Nov	na	na	91.6	103.8	7.03	7.07	13.2	8.82	6.47	9.8
Portugal	− 13.5	Nov	− 8.2	Nov	na	na	93.4**	91.1	0.78	0.93	1.47	–	0.72	-2.9

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, December average. ‡OECD estimate.
**IMF, October average.

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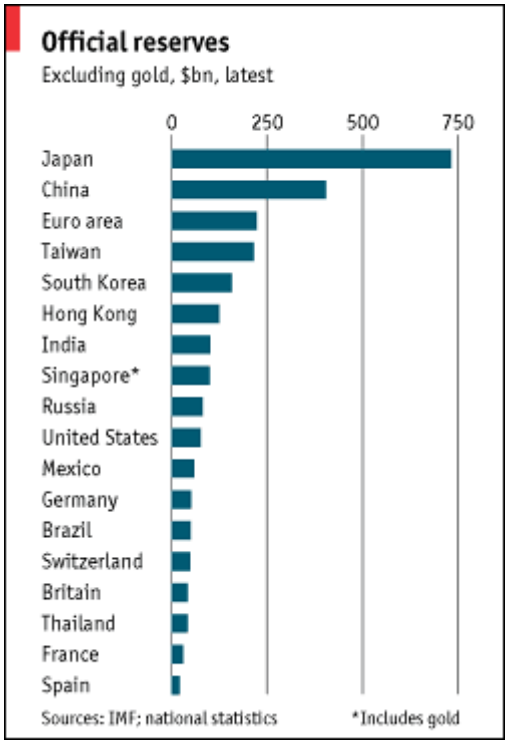

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Overview

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There were further signs of robust recovery in Asia. GDP growth in **Malaysia** accelerated to 6.4% in the year to the fourth quarter of 2003. It picked up to 5.2% in **Taiwan.**

Recovery is also strengthening in **Venezuela.** GDP increased by 9% in the year to the fourth quarter thanks to a rebound in oil exports after strikes reduced levels a year ago.

In **South Africa**, GDP grew by a more modest 1.5% in the year to the fourth quarter.

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Inflation rates

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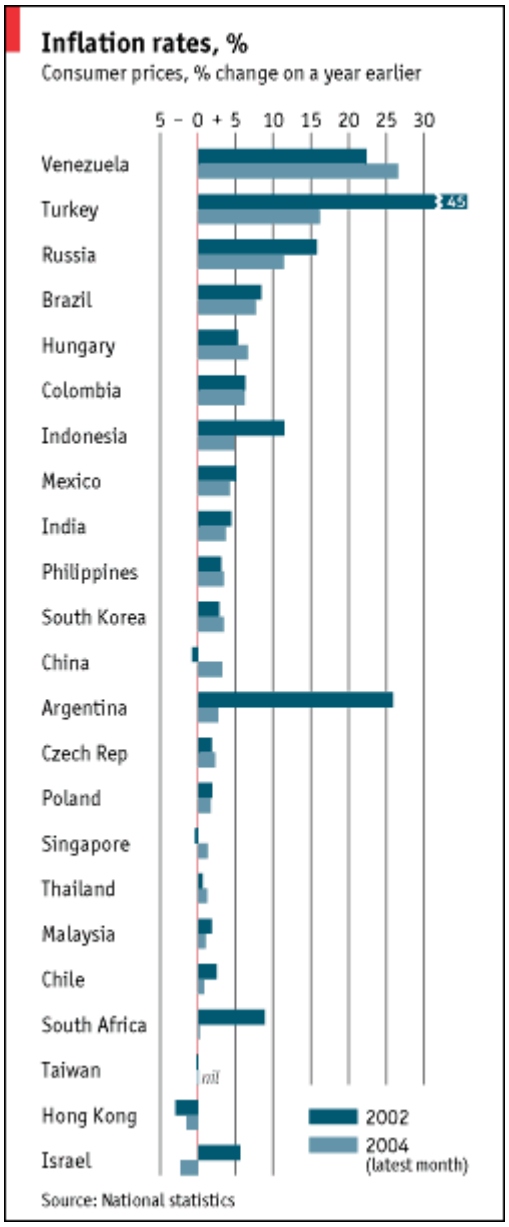
Three-quarters of the emerging economies in the chart now have inflation rates of less than 5%. Even high-inflation countries such as Russia and Turkey have seen their rates fall over the past two years. The big exception is Venezuela, where inflation has risen to 27%. In contrast, Argentina, which topped the league at 26% in 2002, now has a rate of only 2.7%. Two countries—Hong Kong and Israel—are suffering deflation.



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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.9	Q4	+ 7.2	Jan	+ 3.2	Jan	+26.6	Jan	+35.4	2002	403.3	Dec
Hong Kong	+ 4.0	Q3	– 9.2	Q3	– 1.5	Jan	– 8.3	Jan	+17.0	Q3	123.6	Jan
India	+ 8.4	Q3	+ 6.2	Dec	+ 3.7	Dec	–14.8	Dec	+ 2.3	Q3	100.8	Jan
Indonesia	+ 4.3	Q4	+ 4.7	Jul	+ 4.8	Jan	+28.5	Dec	+ 8.1	Q2	35.0	Dec
Malaysia	+ 6.4	Q4	+13.5	Dec	+ 1.0	Jan	+19.6	Dec	+11.9	Q3	43.9	Dec
Philippines	+ 4.5	Q4	– 3.1	Dec	+ 3.4	Jan	– 1.8	Dec	+ 3.1	Oct	12.9	Jan
Singapore	+ 4.9	Q4	+ 5.8	Jan	+ 1.3	Jan	+15.1	Jan	+25.6	Q3	98.6	Jan
South Korea	+ 2.3	Q3	+10.4	Dec	+ 3.4	Jan	+18.8	Jan	+12.4	Dec	156.7	Jan
Taiwan	+ 5.2	Q4	– 1.1	Jan	nil	Jan	+17.7	Jan	+28.6	Q4	214.9	Jan
Thailand	+ 6.5	Q3	+15.7	Dec	+ 1.2	Jan	+ 4.2	Dec	+ 8.0	Dec	41.1	Dec
Argentina	+ 9.8	Q3	+13.0	Nov	+ 2.7	Jan	+15.5	Dec	+ 8.9	Q3	14.7	Jan
Brazil	– 1.5	Q3	+ 2.9	Dec	+ 7.7	Jan	+25.3	Jan	+ 4.6	Jan	53.3	Jan
Chile	+ 3.0	Q3	+ 1.2	Dec	+ 0.8	Jan	+ 3.1	Jan	– 0.6	Q4	16.0	Jan
Colombia	+ 4.2	Q3	+ 3.6	Dec	+ 6.2	Jan	nil	Nov	– 1.6	Q3	11.1	Jan
Mexico	+ 2.0	Q4	+ 2.4	Dec	+ 4.2	Jan	– 5.6	Jan	– 9.2	Q4	59.0	Dec
Peru	+ 3.1	Dec	– 1.9	Dec	+ 2.8	Jan	+ 0.7	Dec	– 1.1	Q4	9.8	Jan
Venezuela	+ 9.0	Q4	– 4.8	Oct	+26.6	Jan	+15.0	Q4	+ 9.6	Q4	16.0	Dec
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.1	Nov	– 6.0	Jul	+ 3.3	Q3	14.1	Dec
Israel	– 0.6	Q4	+ 1.3	Dec	– 2.3	Jan	– 6.1	Jan	– 0.2	Q3	25.9	Jan
South Africa	+ 1.5	Q4	– 1.4	Dec	+ 0.2	Jan	+ 2.1	Dec	– 1.3	Q3	6.5	Dec
Turkey	+ 4.8	Q3	+21.1	Dec	+16.2	Jan	–20.4	Nov	– 5.5	Nov	33.6	Dec
Czech Republic	+ 3.4	Q3	+ 8.9	Dec	+ 2.3	Jan	– 2.5	Jan	– 7.8	Q3	26.6	Jan
Hungary	+ 2.9	Q3	+ 7.6	Dec	+ 6.6	Jan	– 3.8	Dec	– 5.2	Dec	13.2	Jan
Poland	+ 3.9	Q3	+14.3	Jan	+ 1.7	Jan	– 9.7	Dec	– 3.2	Dec	35.4	Jan
Russia	+ 5.7	Q3	+ 7.5	Jan	+11.4	Jan	+60.0	Dec	+39.1	Q4	80.2	Jan
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 4.6	Q3	+ 7.6	Jan	+ 0.5	Jan	– 2.0	Dec	– 1.6	Q4	1.4	Dec
Latvia	+ 7.3	Q3	+ 6.9	Dec	+ 3.9	Jan	– 2.0	Dec	– 0.9	Dec	1.4	Dec
Lithuania	+10.6	Q4	na		– 1.3	Jan	– 2.6	Dec	– 1.1	Q3	3.4	Dec
Slovakia	+ 4.2	Q3	+ 3.5	Dec	+ 8.3	Jan	– 0.6	Dec	– 0.5	Oct	11.7	Dec
Slovenia	+ 2.3	Q3	+ 3.6	Dec	+ 4.0	Jan	– 0.8	Dec‡	nil	Dec	8.2	Nov
Pakistan	+ 5.1	2003†	+20.8	Oct	+ 5.2	Jan	– 1.4	Jan	+ 3.6	Q4†	11.0	Dec
Saudi Arabia	+ 1.0	2002	na		+ 0.4	Nov	+41.8	2002	+11.9	2002	22.6	Dec

*Excluding gold, except Sinagpore; IMF definition. †Year ending June. ‡New series

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Feb 26th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Feb 25th		Dec 31st 2002	
	Feb 25th	year ago	Feb 25th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.6	na	1,725.9	– 4.1	+ 21.6	+ 21.6
Hong Kong	7.78	7.80	14.6	0.12	13,599.5	– 2.4	+ 45.9	+ 46.3
India	45.2	47.7	85.1	4.33	5,618.2	– 6.8	+ 66.4	+ 76.5
Indonesia	8,440	8,888	15,884	7.98	777.1	– 1.1	+ 82.9	+ 93.9
Malaysia	3.80	3.80	7.15	3.03	872.0	+ 1.7	+ 34.9	+ 34.9
Philippines	56.2	54.3	105.8	9.69	1,468.3	– 0.3	+ 44.2	+ 36.9
Singapore	1.69	1.74	3.18	0.75	1,868.3	– 1.1	+ 39.3	+ 42.9
South Korea	1,170	1,185	2,202	4.00	866.9	– 1.2	+ 38.1	+ 40.0
Taiwan	33.2	34.7	62.5	1.05	6,644.3	+ 0.6	+ 49.2	+ 56.3
Thailand	39.2	42.7	73.7	1.33	704.7	– 5.1	+ 97.7	+117.5
Argentina	2.92	3.18	5.50	3.06	1,178.4	+ 4.5	+124.5	+158.6
Brazil	2.96	3.58	5.57	16.33	21,609.0	– 1.8	+ 91.8	+129.4
Chile	588	754	1,107	1.68	7,572.8	+ 1.9	+ 50.9	+ 84.7
Colombia	2,668	2,951	5,021	7.98	3,091.6	+ 0.8	+ 92.2	+106.5
Mexico	11.1	11.0	20.9	6.21	9,926.7	– 2.0	+ 62.0	+ 52.6
Peru	3.47	3.48	6.54	2.47	2,720.8	– 0.6	+ 95.5	+ 97.8
Venezuela	3,178§	1,598	5,982	na	27,884.7	+ 0.1	+247.9	+ 51.8
Egypt	6.19	5.53	11.65	7.03	13,321.5	+ 4.6	+148.0	+ 85.5
Israel	4.46	4.85	8.40	1.26	568.5	– 0.7	+ 71.0	+ 82.0
South Africa	6.58	8.00	12.4	8.05	10,752.1	– 1.7	+ 15.9	+ 51.1
Turkey	1,327,000	1,615,000	2,497,414	21.00	18,707.1	– 4.0	+ 80.4	+125.7
Czech Republic	25.9	29.4	48.7	2.07	758.0	+ 1.3	+ 64.5	+ 91.4
Hungary	206	226	387	12.75	10,037.9	+ 2.0	+ 28.7	+ 40.6
Poland	3.86	3.88	7.27	5.42	22,653.5	– 3.5	+ 57.7	+ 56.5
Russia	28.5	31.6	53.6	14.00	656.9‡	+ 0.3	+ 63.2	+ 82.9
EMF (MSCI)*	1.00	1.00	1.88	na	471.0	– 2.5	+ 61.2	+ 61.2
EMBI+†	1.00	1.00	1.88	na	296.3	– 0.3	+ 29.4	+ 29.4

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms. § Floating exchange rate.

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